

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

All amounts are in thousand Bulgarian Levs, except otherwise stated

1. Organisation and scope of activity

Enemona AD (the "Parent company") was initially registered as a partnership company in 1990 and in 1994 the Parent-company was registered as a joint-stock company. The address of the Parent-company according to the court registration is at the city of Kozlodui, Panait Hitov 1A. The Parent-company is a public entity and its shares are registered at the Financial Supervision Commission in order to be traded at the Bulgarian Stock Exchange. As of December 31, 2011 and 2010 the major shareholder of Enemona AD is Dichko Prokopiev Dichkov. There have been no changes in the legal status of the Parent company during the current financial year.

The scope of activity of the Parent Company is construction works, which includes all stages from design to assembly and construction.

As of December 31, 2011 and 2010 the employees of the Group are 1,168 and 1,859, respectively.

As of December 31, 2011 the following subsidiaries of the Parent company have been included in the consolidation:

Company	Description of activities	Interest	
		As of 31.12.2011	As of 31.12.2010
Enemona Utilities AD	Trade in electrical power	99,46%	100.00%
FEEI ADSIP	Special investment purpose company – securitization of receivables	88,97%	70.76%
Pirin Power AD	Design and construction of energy projects	100.00%	100.00%
FINI ADSIP	Special investment purpose company – purchase of real estate	69.23%	69.23%
Hemus gas AD	Construction of compressor stations	50.00%	50.00%
Esko engineering AD	Heating and air conditioning projects	99.00%	99.00%
TFETS Nikopol EAD	Construction of electric power station	100.00%	100.00%
Enemona Galabovo AD	Construction contracts	91.13%	91.13%
Nevrokop gas AD	Trade in gas	90.00%	90.00%
EMKO AD	Construction contracts	77.36%	77.36%
Regionalgas AD	Gasification projects	50.00%	50.00%
PPP Mladenovo EOOD	Prospecting, design, construction and assembly, commissioning, reparation, servicing and engineering works	100.00%	-
Artantes Mining Group AD	Exploration of mineral resources	100.00%	-

The basis and principles for the preparation of the consolidated financial statements are disclosed in note 2.2. below.

In May 2010 the Group registered a branch in the Republic of Slovakia, which is related to carrying out a construction contract.

In June 2011 the Group started its activity in Germany through place of activity there.

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1. Organisation and scope of activity (continued)

In 2011, the Group has been established two subsidiaries- Artanes Mining Group AD and PPP Mladenovo EOOD. As of 31 December 2011 both subsidiaries are fully owned by the Group. The shares of Artanes Mining Group AD are traded at Bulgarian Stock Exchange.

As of December 31, 2011 the share of Enemona AD in EESF SPV increased from 70.76% or 922,201 ordinary shares to 88.97% or 3,462,201 ordinary shares with voting rights following the capital raising done by EESF SPV during 2011.

Discontinued operations

In 2011 the Group sold its investments in the following subsidiaries, presented as discontinued operations in these consolidated financial statements:

Company	Description of activity	Interest	
		As of 31.12.2011	As of 31.12.2010
Agro Invest Engineering AD	Cultivation of agricultural land	-	99.98%
Solar Energy OOD	Solar energy station project	-	80.00%
Neo Agro The AD	Recultivation of plots	-	90.00%
Lomsko pivo AD	Beer production	-	53.04%

On March 31, 2011 the Company signed sales agreement with Sofia France Auto AD for the disposal of 99.98% of the capital of its subsidiary Agro Invest Engineering AD together with the stake of 49,96% in Lomsko pivo AD. The consideration agreed amounted to BGN 18,422 thousand (note 29).

On June, 28 2011 the Company signed a sales agreement for the disposal of 90% from the Neo Agro Tech and 80% from the Solar Energy OOD investments. The consideration agreed amounted to 49 BGN thousand.

2. Accounting policy

2.1 General financial reporting framework

These consolidated financial statements are prepared in all material respects in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the "EU") and applicable in the Republic of Bulgaria.

Changes in IFRS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IAS 24 Related Party Disclosures - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on July 19, 2010 (effective for annual periods beginning on or after January 1, 2011),

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All amounts are in thousand Bulgarian Levs, except otherwise stated

2. Accounting policy (continued)

2.1 General financial reporting framework (continued)

Changes in IFRS (continued)

- Amendments to IAS 32 Financial Instruments: Presentation– Accounting for rights issues, adopted by the EU on December 23, 2009 (effective for annual periods beginning on or after February 1, 2010),
- Amendments to IFRS 1 First-time Adoption of IFRS- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on June 30, 2010 (effective for annual periods beginning on or after July 1, 2010),
- Amendments to various standards and interpretations Improvements to IFRSs (2010) resulting from the annual improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on February 18, 2011 (amendments are to be applied for annual periods beginning on or after July 1, 2010 or January 1, 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction - Prepayments of a Minimum Funding Requirement, adopted by the EU on July 19, 2010 (effective for annual periods beginning on or after January 1, 2011),
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, adopted by the EU on July 23, 2010 (effective for annual periods beginning on or after July 1, 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- Amendments to IFRS 7 Financial Instruments: Disclosures- Transfers of Financial Assets, adopted by the EU on November 22, 2011 (effective for annual periods beginning on or after July 1, 2011).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at the date of publication of financial statements:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2015),

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2. Accounting policy (continued)

2.1 General financial reporting framework (continued)

Changes in IFRS (continued)

- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013),
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1, 2013),
- IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after January 1, 2013),
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013),
- IAS 27 (revised in 2011) Separate Financial Statements (effective for annual periods beginning on or after January 1, 2013),
- IAS 28 (revised in 2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 1 First-time Adoption of IFRS- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011),
- Amendments to IFRS 7 Financial Instruments: Disclosures- Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 9 Financial Instruments” and IFRS 7 Financial Instruments: Disclosures- Mandatory Effective Date and Transition Disclosures,
- Amendments to IAS 1 Presentation of financial statements -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),
- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012),
- Amendments to IAS 19 Employee Benefits - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IAS 32 Financial instruments: presentation - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after January 1, 2013).

The Group expects that the adoption of these standards, amendments to existing standards and interpretations will have no material impact on the consolidated financial statements of the Company in the period of initial application, except for the noted below which might have material effect on the consolidated financial statements:

- IFRS 9 Financial instruments, which uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the variety of rules of IAS 39. The approach in IFRS 9 is based on how the entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the variety of rules of IAS 39.
- IFRS 10 Consolidated financial statements, which defines the accounting principles and procedures for preparation of consolidated financial statements.
- IFRS 12 Disclosures of Involvement with Other Entities, which requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

2. Accounting policy (continued)

2.1 General financial reporting framework (continued)

Changes in IFRS (continued)

- IFRS 13 Fair Value Measurement, which defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the reporting date.

2.2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments and the deemed cost of buildings on the first time adoption of IFRS.

These consolidated financial statements have been prepared on accrual basis, under the going concern assumption.

2.3 Principles of consolidation

As of December 31, 2011 and 2010 the Group consists of the Parent company and its subsidiaries listed in note 1.

A subsidiary is an entity that can be controlled by the Parent company through determining its financial and operating policies or in another manner to the extent that the Parent company can obtain benefits from its activities. Most often the exercising of control is accompanied by owning more than half of the voting rights in a given company.

The financial statements of the subsidiary are subject to full consolidation from the moment in which the Parent company obtains effective control and are excluded from the consolidated financial statements, when the company is no longer controlled by the Parent company.

When necessary, adjustments and reclassifications are made in the financial data of the separate financial statements of the subsidiaries in order to unify their accounting policies with the accounting policy of the Parent company.

All significant intra-group balances and intra-group transactions, as well as intra-group profits and losses are eliminated as a result of the consolidation procedures.

Non-controlling interests in subsidiaries are disclosed apart from the Group's equity. Interest of non-controlling shareholders is measured at initial recognition of the business combination using one of the following methods: (1) at fair value and (2) as the proportional share in non-controlling interests in the fair value of the identifiable net assets of the acquired company. The method for initial accounting of non-controlling interests is chosen separately for each business combination. Upon subsequent measurement the balance of the non-controlling interests is determined as a sum of initially recognized balance and the share of non-controlling shareholders in the equity changes of the subsidiary. Comprehensive income is distributed to non-controlling interests even when this results in negative balance of the non-controlling interests.

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2. Accounting policy (continued)

2.3 Principles of consolidation (continued)

When acquiring investments in subsidiaries they are reported by applying the acquisition method, which includes identifying the acquirer, determining the consideration for the acquisition and allocating the consideration for the acquisition among the acquired assets, assumed liabilities and contingent liabilities. The consideration for the acquisition cost is an aggregate of the fair values, as of the date of exchange, of the assets granted, liabilities incurred or assumed and equity instruments, issued by the acquirer in exchange of control over the acquiree, as well as costs directly attributable to the transaction. The excess of acquisition price over the interest of the acquirer in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree is reported as goodwill. In cases when the acquisition price is lower than the interest of the investor in the fair value of the net assets of the acquired company, then the difference is recognized directly in the statement of comprehensive income.

Goodwill arising in business combinations is reviewed for impairment annually, or more often, if there are events or changes in circumstances, which indicate impairment.

Companies in which the Group has significant influence, but no control, are accounted for in the consolidated financial statements as associates (see note 2.13). Significant influence is the right of participation in the financial and operational decisions of the associates, but no control over these decisions.

2.4 Business combinations

According to the requirements of IFRS 3 Business combinations, business combination is alliance of companies or businesses into a single accounting entity. In case a company obtains control over another company which does not represent separate business the alliance of these companies is not recognized as business combination. A business combination is accounted for under the purchase method according to the requirements of the applicable standards.

When changes in Parent company's interests in subsidiaries occur in reporting periods after the control was obtained and do not result in a loss of control, they are accounted for as equity transactions (i.e. transactions with shareholders in their capacity of shareholders). In such circumstances the carrying amounts of the interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and their fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent company.

When the Group loses control of a subsidiary the profit or loss on disposal is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the carrying amount of the assets (incl. goodwill), liabilities and any non-controlling interests of the sold company.

2.5 Functional currency and presentation currency

According to the Bulgarian accounting legislation the Group keeps its records and prepares its financial statements in the national currency of the Republic of Bulgaria – Bulgarian lev, which effective January 1, 1999 is fixed to the euro at 1.95583 BGN for 1 EUR. The Group's functional currency is the Bulgarian national currency.

These consolidated financial statements are presented in thousand of BGN (BGN'000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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2. Accounting policy (continued)

2.6 Foreign currency transactions

Transactions in foreign currency are initially recorded at the official rate of exchange of the Bulgarian National Bank (BNB) as of the date of the transaction. The foreign exchange rate differences, arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported in the statement of comprehensive income for the period in which they arise. The monetary positions denominated in foreign currency as of December 31, 2010 are stated in these financial statements at the closing exchange rate of BNB.

2.7 Accounting estimates and accounting assumptions

The preparation of the financial statements in accordance with IFRS requires management to make certain accounting estimates and reasonable assumptions that affect some of the reported amounts of assets and liabilities as of the date of the financial statements and the revenues and expenses during the reporting period. Although these estimates and assumptions are based on the best estimate of management, taking into account historical experience the actual results could differ from those estimates.

The critical accounting estimates and main sources of uncertainty in making these reasonable assumptions are disclosed in note 3 below.

2.8 Property, plant and equipment

Property, plant and equipment are initially measured at cost being purchase price and directly attributable costs, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and any accumulated impairment loss.

Expenses incurred after the assets were put into operation, such as repairs and maintenance, are reported in the statement of comprehensive income in the period in which they arise, except for when they increase the useful life of the assets.

Acquisition costs for property, plant and equipment comprise of non-current assets under construction and are recorded at cost. Such costs include expenses for construction of the property and equipment and other direct expenses. Acquisition costs are not subject to depreciation until the completion and placing the respective assets into operation.

The Group's assets are depreciated using the straight-line method. The useful life of the main categories of assets as of December 31, 2011 and 2010 is as follows:

Assets	<u>Useful life (years)</u>
Buildings	From 45 to 51
Machinery	From 5 to 7
Equipment	From 5 to 7
Fixture and fittings	From 5 to 10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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All amounts are in thousand Bulgarian Levs, except otherwise stated

2. Accounting policy (continued)

2.9 Property, plant and equipment (continued)

Assets acquired under finance lease are depreciated over their expected useful life on the same base as the own assets, or when the term of the lease agreement is less than the asset's useful life – over the term of the respective lease agreement, if there are no reasonable grounds to believe that the ownership will be acquired at the end of the lease term.

Gains or losses arising from sales of property, plant or equipment are calculated as a difference between the proceeds and the net book value of the assets sold, and are recorded in the statement of comprehensive income.

2.9 Investment properties

Investment properties of the Group consist of land and buildings owned by a special investment purpose company, which are held for generating income from rent or for selling at higher prices.

Investment properties are measured initially at cost, which includes the purchase price, as well as direct costs attributable to the acquisition of the properties. Subsequent expenses, related to the investment property, which have already been recognized, are added to the net book value of the investment property, when it is probable that future economic benefits will flow to the company that exceed the initially estimated efficiency of the existing investment property. All other subsequent expenses are recognized as expenses in the period when they arise.

Subsequent measurement of investment properties is performed by using the fair value, which measures an investment property after the initial recognition at cost. The changes in fair value are recognized in the statement of comprehensive income.

2.10 Intangible assets

Software and licenses are the major components comprising the intangible assets. Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that economic benefits will flow to the entity as a result of owning the asset and if the value of the asset can be measured reliably. After initial recognition intangible assets are measured at cost less accumulated amortization and impairment losses. Intangible assets are amortized during the useful life by using the straight line method.

The useful life of the main categories of intangible assets as of December 31, 2011 and 2010 is as follows:

Intangible assets	<u>Useful life (years)</u>
Software	7
Licenses, patents, trademarks and rights	17

2.11 Exploration and evaluation assets

Exploration and evaluation assets comprise of expenditures on exploration for and evaluation of mineral resources and are accounted in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources. These assets are measured at cost minus accumulated amortization and impairment loss.

2. Accounting policy (continued)

2.12 Exploration and evaluation assets (continued)

The Group capitalizes the expenditures for exploration and evaluation assets from the date of receiving the right for exploration until it is possible to prove the technical feasibility and commercial viability of the mineral resource. Subsequently, the Group reclassifies exploration and evaluation assets as intangible assets and depreciates them based on their expected useful life.

Exploration and evaluation assets are assessed for impairment when facts and circumstances show that the carrying amount of the exploration and evaluation assets may exceed their recoverable amount.

2.12 Impairment of property, plant and equipment and intangible assets

As of each date of the statement of financial position, the Group reviews whether there is any indication for impairment of property, plant and equipment and intangible assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit, to which the asset belongs.

Intangible assets with unidentified useful life and intangible assets that are not available for use are tested for impairment on an annual basis and also when there are any indications for impairment of the asset.

The recoverable amount is the higher of the asset's fair value less costs to sell the asset and its value in use. Upon measuring the value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately, unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease in the revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the asset is carried at a revalued amount, in which case the impairment loss is treated as an increase in the revaluation reserve.

2.13 Investments in associates

An associate is an entity over which Enemona AD, directly or indirectly through one or more subsidiaries, has significant influence, but is neither a subsidiary nor an interest in a joint venture. Significant influence is the right of participation in, but not control over the financial and operating policy decisions of the investee.

In these consolidated financial statements Enemona AD reports investments in associates using the equity method; i. e. reports the interest in the profit and losses of the associates.

2. Accounting policy (continued)

2.14 Segment reporting

Information on operating segments in these consolidated financial statements has been presented in a manner that is similar to the operational reports submitted to the management of the Group, on the basis of which decisions are taken regarding the resources, which should be allocated in segments and should measure the operating results.

2.15 Inventory

Inventory consists of materials, work in progress and finished work.

Inventories are stated at lower of cost and net realizable value. Cost comprises purchase price, manufacturing expenses and any other costs directly attributable to bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price less the completion costs and all estimated costs to be incurred in marketing, selling and distribution. Upon consumption, the cost of inventories is calculated using the First in – first out method.

When materials are imported the exchange rate at the date of the invoice is used.

2.16 Employee benefits

In accordance with IAS 19 Employee Benefits the Group recognizes liabilities for retirement compensations, which are calculated by licensed actuary by using the Projected Unit Credit Method (see note 18). The amount reported in the statement of financial position, represents the current amount of the non-current liabilities of the Group for retirement compensations.

2.17 Lease

A given lease contract is classified as finance lease, if it transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating lease.

Finance lease

In the inception a lease contract is recognized as an asset of the Group at the amount which at the inception of the lease term is equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments.

The respective liability to the lessor is reported in the statement of financial position as a finance lease liability.

Lease payments are apportioned between the finance cost and the decreased unpaid liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized directly in the statement of comprehensive income.

2. Accounting policy (continued)

2.17 Lease (continued)

Operating lease

Lease payments under operating lease are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term, except when another system basis is representative of the time when the lessee uses the rewards of the leased asset. Contingent costs for lease are recognized as an expense in the period when they arise.

When incentives are received in negotiating operating lease, they are recognized as a liability. The total reward of the incentives is recognized as a decrease of the costs for lease on a straight line basis over the lease term, except when another system basis represents the allocation of the rewards for the lessor for the use of the leased asset over time.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as provision is the best estimate of expenses, needed for repayment of current liability as of the date of the statement of financial position as liability risks and uncertainties are taken into consideration. When a provision is measured by the cash flows, set for settling the current liability, the carrying amount of the provision represents the present amount of the cash flows.

When some or all economic benefits, related to settling a liability, are expected to be repaid by third party, the receivables are recognized as an asset, if it is sure that the repaid amount will be received and the receivables could be measured reliably.

2.19 Taxes

Taxes due are calculated in accordance with the Bulgarian legislation. Income tax is calculated on the basis of taxable profit, whereby the financial result is transformed for certain income and expense items (as depreciation, provisions, shortages and penalties) in accordance with the Bulgarian tax legislation.

Deferred tax liability is recognized for all taxable temporary differences, unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affected neither the accounting profit nor taxable profit (loss).

Deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. However, this principle does not apply when such differences arise from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affected neither the accounting profit nor taxable profit (loss).

2. Accounting policy (continued)

2.19 Taxes (continued)

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period except to the extent that the tax arises from a transaction or event that is recognized in the same or different period, directly in equity. Current and deferred taxes are charged or credited directly to equity when the tax relates to items that are credited or charged directly to equity.

2.20 Financial instruments

The Group's financial instruments include cash on hand and in banks, trade and other receivables, loans granted and received, trade and other payables. The Group's management considers that the fair value of financial instruments approximates their carrying amount. Fair value is the value for which an asset can be exchanged or a liability can be settled between informed and independent parties in fair arm's length transaction.

Investments are recognized and disposed on the trading date where the sale or purchase of investment is performed by a contract which demands the delivery of the investment within the terms of the respective market and are initially measured at fair value, net of transaction costs, except for those financial assets classified by fair value in profit or loss, which are initially measured at fair value.

2.20.1 Financial assets

Financial assets are classified in the following specific categories: financial assets reported at fair value through profit or loss, held to maturity investments, available for sale financial assets and loans and receivables. The classification depends on the type and purpose of financial assets and is defined upon their initial recognition.

Trade receivables, loans and other receivables, which have fixed or determinable payments, which are not trade on active market, are classified as loans and receivables.

As of December 31, 2011 the Group does not own financial assets reported at "held to maturity" and "available for sale" categories. As of December 31, 2010 the Group does not own financial assets reported at "held to maturity" category.

Cash and cash equivalents

Cash comprises cash on hand and in banks. The Group considers all highly liquid financial instruments with maturity 3 months or less for cash equivalents. For the purpose of the cash flow statement cash and equivalents include cash and cash equivalents as described above.

Financial assets at fair value through profit or loss

A financial asset is classified as financial asset at fair value through profit or loss when the asset is held for trading or is designated as an instrument for accounting through profit or loss. As of December 31, 2011 the Group recognizes financial assets held for trading.

A financial asset is classified as held for trading when the asset is acquired mainly for the purpose of short-term sale or is part of a trading portfolio or is a derivative contract which is not used for hedging.

2. Accounting policy (continued)

2.20 Financial instruments (continued)

2.20.1 Financial assets (continued)

Regular transactions with financial instruments measured at fair value through profit or loss are recognized initially at trade date. The trade date is the date of the commitment to buy or sell the financial asset. On the settlement date the right over the asset is transferred. No derivative is recognized for the changes in the fair value in the time period between trade and settlement date.

Financial assets are initially measured at fair value. The fair value should normally be equal to the fair value of consideration given or received (“the transaction price”), when the transaction is conducted on arm’s length terms between informed and knowledgeable parties. The subsequent measurement of the financial assets at fair value through profit and loss is based on the fair value determined using active market quotes from observable market. An active market is a market on which there are regular quotations and transactions with the instrument. The market price from observable market is the closing price for non derivative financial asset. If it is not possible to determine the fair value from active market, a reliable valuation techniques are used, which are based on the information which all market participants would consider in the valuation of this financial instrument. The information from observable and not observable sources could be used in the valuation technique. The difference from changes in the fair value of the financial instrument is recognized in the comprehensive income for the period.

Loans and receivables

Loans and receivables are measured at amortized cost through the effective interest rate method except for current receivables where the recognition of the interest would be insignificant. Loans granted by the Group and receivables on financing of activities for energy efficiency are reported in the statement of financial position as „Loans and advances”, and other trade receivables – in “Trade and other receivables”.

Trade and other receivables are presented at nominal value less impairment loss, if any. An estimate for impairment and uncollectability loss is performed as of the end of each year based on review of receivables.

Impairment

As of the date of preparation of the financial statements financial assets with the exception of financial assets carried at fair value through profit or loss, are reviewed for indications of impairment. A financial asset is considered to be impaired only if objective evidence exists that as a result of one or more events, which have occurred after its initial recognition, the expected cash flows have been reduced.

For certain categories of financial assets, such as trade receivables and assets, which are considered not to be impaired separately, are subsequently reviewed for impairment on a collective basis. Objective evidence for impairment of a portfolio of receivables can include the past experience of the Company regarding the collection of payments, increase of the number of the overdue payments in the portfolio for more than the average loan period of 180 days, as well as observed changes in the national and local economic conditions, which are related to the overdue receivables.

For financial assets, measured at amortized cost, the amount of the impairment loss is the difference between the carrying amount of the assets and the present amount of the expected future cash flows, discounted by the initial effective interest rate.

2.20 Financial instruments (continued)

2.20.1 Financial assets (continued)

With the exception of the financial assets available for sale, if in a subsequent period the amount of the impairment loss is reduced or the decrease can be objectively attributed to an event after the recognition of the impairment, the prior impairment loss is recognized in the statement of comprehensive income to the extent that the carrying amount of the investment at the date on which the impairment is reported, does not exceed the amount which the amortized cost would have if no impairment had been recognized.

2.20.2 Issued financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or equity depending on the nature of the contract agreement.

Equity instruments

Equity instrument is every contract, evidencing residual interest in Group's assets after deduction of all its liabilities. Equity instruments are reported by receipts, net of expenses for their issuance.

Financial liabilities

Financial liabilities include received loans (bank loans, debenture loans and other borrowed funds) and trade and other payables.

Loans are initially measured at fair value, net of transaction costs. Subsequently loans are measured at amortized cost and the difference between due payments (net of transaction costs) and the amortized cost is recognized in the statement of comprehensive income over the period of the loan by using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating income/expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash receipts or payments (including all received fees and other margins or discounts) through the expected life of the financial instrument or, when appropriate for a shorter period, to its carrying amount.

Loans are recognized as short-term, except when the Group has the unconditional right to reschedule the payment of the liability for at least 12 months after the date of the statement of financial position.

Trade and other payables are valued at the amount they are expected to be settled in the future.

2.21 Income and expenses under construction contracts

The Group classifies as construction contract each contract in which it is specifically agreed that the construction of an asset or a number of assets, which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contract revenue is measured at the fair value of the consideration received or receivable. Contract costs include all direct costs, attributable to the contract. Costs that are not attributable to the contract such as administrative expenses and selling costs are recognized during the reporting period regardless of the stage of completion of the contract.

2. Accounting policy (continued)

2.22 Income and expenses under construction contracts (continued)

When the result of a construction contract can be reliably measured, contract revenue and expenses are recognized by reference to the stage of completion of the contract as of the date of the statement of financial position, calculated as a ratio between the up-to-date contract expenses and the expected total amount of expenses under the contract. Expected loss under the construction contract is recognized as expense in the statement of comprehensive income.

Changes in construction works, payment of claims and incentives are recognized to the amount to which it is probable that they will lead to income realization and they can be reliably measured.

When the outcome of a construction cost cannot be reliably measured, contract revenue is recognized to the extent of contract costs incurred, if it is probable that they will be recovered by the customer.

2.22 Other income and expenses

Income from sales of finished goods is recognized when risks and benefits from ownership of the finished goods are transferred to the buyer and the transaction related costs can be measured reliably.

Income from sales of goods and services is recognized when it arises, independently of the cash receipts and payments, when the Group complies with the terms of sales and the significant risks and benefits, related to ownership of goods are transferred to the buyer.

Expenses are recognized in the statement of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or increase in a liability has arisen and can be measured reliably. Expenses are recognized on the basis of a current association between the costs incurred and the earnings of specific items of income. When economic benefits are expected to arise over several accounting periods and the association with the income can only be broadly or indirectly determined, expenses are recognized in the statement of comprehensive income on the basis of systematic and rational allocation procedures.

Interest income and expense are accrued on a time basis based on the principal due and the applicable/effective interest rate.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, are capitalized as part of the cost of this asset. Qualifying asset is the asset, which necessarily takes substantial period of time to get ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings granted explicitly for a qualifying asset decrease the borrowing costs eligible for capitalization.

Commercial activities are analyzed by the Group in order to identify presence or absence of agency relationship. The process includes the circumstances related with the risk and rewards for the Group, when goods are sold and services are rendered. When there is no agency relationship income and expenses (or cost) for the commercial activities of the Group are presented as gross amounts in the statement for comprehensive income.

3. Critical accounting estimates and main sources of uncertainty at making accounting assumptions

The preparation of financial statements in accordance with IFRS requires management to make certain accounting estimates and assumptions that affect some of the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities as of the date of the statement of financial position and the reported revenues and expenses during the reporting period. These estimates and assumptions are based on the available information as of the date of preparation of the separate financial statements as actual results could defer from those estimates.

3. Critical accounting estimates and main sources of uncertainty at making accounting assumptions (continued)

3.1. Revenue and expenses under construction contracts

As disclosed in note 2.21 recognition of revenue from construction contracts requires the determination of a stage of completion for each construction contract. This stage is defined on the basis of available information for the total amount of the revenue receivable and total costs for the respective contract. The total amount of expenses under construction contracts depends on the volume and amount of construction activities to be performed to meet the obligations of the Group. The volume and amount of future activities depend on future factors which may defer from the management's estimations.

3.2. Impairment of non financial assets

Impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, whereas the recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between informed, knowledgeable, willing parties, less the costs of disposal. Value in use is based on the discounted cash flow model. The cash flows are determined on the budget estimates for the next five years. Recoverable amount depends on the discount factor used in the discounted cash flow model and on the expected future cash flows, as well as on the growth assumption.

3.3. Impairment of financial assets

Impairment of financial assets is determined based on the expected future cash flows discounted at the initial effective interest rate. When determining the expected future cash flows, the Group analyzes the financial capabilities of its debtors and the expected period for receiving the cash flows.

3.4. Useful life of property, plant and equipment and intangible assets

Another key sources of estimation uncertainty include estimation of useful lives of property, plant and equipment and intangible assets. In 2011 there are no circumstances that may trigger a change in the estimated useful lives of these assets.

3.5. Economic environment

In 2011 and 2010 as a result of the global financial crisis, a decrease in the economic development of the Bulgarian economy is perceived which affects a wide range of industrial sectors. This leads to noticeable aggravation of cash flows; decline in income and as a result to substantial worsening of the economic environment in which the Group operates. In addition the entity is exposed to significantly higher price, market, credit, liquidity, interest, operating and other risks. As a result, uncertainty for the ability of clients to settle their liabilities in accordance with contracted terms increases.

Therefore, the amount of impairment losses on loans granted, receivables from clients, and the value of other accounting estimates in subsequent periods could substantially differ from those determined and recorded in this separate financial statements. The management of the Group applies all necessary procedures to control these risks.

3.6. Fair value of financial assets

During 2011 the Bulgarian Stock Exchange market was not quite active. In case that the market does not recover, this may cause difficulties in realizing assets at the current active quotations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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4. Property, plant and equipment

<i>Cost</i>	Land	Buildings	Machinery and equipment	Vehicles	Other	Assets under construction	Total
JANUARY 1, 2010	20,358	24,478	19,337	11,799	5,645	6,170	87,787
Additions	15	15	258	37	203	13,408	13,921
Transfers	3,145	9,175	1,170	17	116	(13,623)	-
Disposals	(990)	(114)	(13)	(338)	(21)	(3)	(1,479)
DECEMBER 31, 2010	22,513	33,554	20,752	11,515	5,943	5,952	100,229
Additions			351	51	56	2,105	2,563
Transfers	207	97	2	79	2	(387)	-
Disposals	(411)	(95)	(58)	(234)	(179)	-	(977)
Derecognized on disposal of subsidiaries	(16,020)	(6,055)	(9,776)	(1,156)	(2,096)	(1,141)	(36,244)
DECEMBER 31, 2011	6,289	27,501	11,271	10,255	3,726	6,529	65,571
<i>Accumulated depreciation</i>							
JANUARY 1, 2010	-	4,097	7,543	2,819	2,194	-	16,653
Depreciation charge	-	428	1,370	810	408	-	3,016
Depreciation charge for discontinued operations	-	121	935	60	194	-	1,310
Disposals	-	(17)	(3)	(136)	(3)	-	(159)
DECEMBER 31, 2010	-	4,629	9,845	3,553	2,793	-	20,820
Depreciation charge	-	548	1,323	797	410	-	3,078
Impairment	-	-	-	-	11	168	179
Disposals	-	(20)	(55)	(195)	(139)	-	(409)
Derecognized on disposal of subsidiaries	-	(2,412)	(5,408)	(281)	(1,045)	-	(9,146)
DECEMBER 31, 2011	-	2,745	5,705	3,874	2,030	168	14,522
<i>Net book value</i>							
JANUARY 1, 2010	20,358	20,381	11,794	8,980	3,451	6,170	71,134
DECEMBER 31, 2010	22,513	28,925	10,907	7,962	3,150	5,952	79,409
DECEMBER 31, 2011	6,289	24,756	5,566	6,381	1,696	6,361	51,049

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4. Property, plant and equipment (continued)

As of December 31, 2011 and 2010 property, plant and equipment with carrying amount of BGN 4,871 thousand and BGN 8,177 thousand, are leased under financial lease contract (see note 17).

As of December 31, 2011 and 2010 property, plant and equipment with carrying amount of BGN 20,966 thousand and BGN 39,495 thousand, respectively, are pledged as collateral under bank loan agreements (see note 16).

5. Investment properties

	As of 31.12.2011	As of 31.12.2010
Balance at the beginning of the year	550	742
Sales	-	(192)
Impairment	(16)	-
Balance at the end of the year	<u>534</u>	<u>550</u>

As of December 31, 2011 and 2010 the Group made revaluation of the investment properties to fair value and as a result the Group recognized an impairment loss of BGN 16 thousand for the year, ended at 31 December 2011. In 2011 no investment properties have been acquired or sold. In 2010 investment properties at the amount of BGN 192 thousand are sold.

The investment properties of the Group are rented out. The rent income reported in 2011 and 2010 in the statement of comprehensive income amount to BGN 67 thousand and BGN 93 thousand, respectively.

6. Intangible assets

	Rights	Software	Total
<i>Cost</i>			
JANUARY 1, 2010	2,662	374	3,036
Additions	9	20	29
Disposals	-	-	-
DECEMBER 31, 2010	<u>2,671</u>	<u>394</u>	<u>3,065</u>
Additions			
Disposals		(70)	(70)
Derecognized on disposal of subsidiaries	(1,180)	(16)	(1,196)
DECEMBER 31, 2011	<u>1,491</u>	<u>308</u>	<u>1,799</u>
<i>Accumulated amortization</i>			
JANUARY 1, 2010	808	225	1,033
Charged for the period	63	42	105
Charge for discontinued operations	49	1	50
Disposals	-	-	-
DECEMBER 31, 2010	<u>920</u>	<u>268</u>	<u>1,188</u>
Charged for the period	65	34	99
Disposals	-	(63)	(63)
Derecognized on disposal of subsidiaries	(150)	(6)	(156)
DECEMBER 31, 2011	<u>835</u>	<u>233</u>	<u>1,068</u>
<i>Net book value</i>			
JANUARY 1, 2010	<u>1,854</u>	<u>149</u>	<u>2,003</u>
DECEMBER 31, 2010	<u>1,751</u>	<u>126</u>	<u>1,877</u>
DECEMBER 31, 2011	<u>656</u>	<u>75</u>	<u>731</u>

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7. Exploration and evaluation assets

Exploration and evaluation assets represent capitalized expenditures on energy project Lom Lignites. The project is related to obtaining concession for lignite production from Lom Lignite field.

The project Lom Lignites started in October 2007 with a contract for prospecting and exploration between the Parent company and Ministry of economy and energy. As of December 31, 2011 and 2010 exploration and evaluation assets amount to BGN 1,579 thousand and BGN 1,555 thousand, respectively. As of these dates the Group has not charged amortization of the assets as the technical feasibility and commercial viability of the project are not demonstrable.

As of December 31, 2011 and 2010 the Group estimated that there are no indications for impairment of the exploration and evaluation assets and no impairment has been recorded on them.

On 21 April 2011, the Parent company sold the exploration and evaluation assets to its subsidiary Artanes Mining Group AD, established with the special purpose to develop and manage the project.

8. Investments in associates

As of December 31, 2011 and 2010 investments in associates are as follows:

COMPANY	Share		COST	
	As of 31.12.2011	As of 31.12.2010	As of 31.12.2011	As of 31.12.2010
Alfa Enemona OOD	40%	40%	4	4
TOTAL			4	4

In these consolidated financial statements the investment in associated company is presented using the equity method, considering the share of profit and loss of the associated company.

The share of the Group in the profit of the associated company is as follows:

Alfa Enemona OOD	As of 31.12.2011	As of 31.12.2010
Total assets	264	401
Total liabilities	58	60
Net assets	206	341
Share of the Group in the net assets in the associated company	82	136
Alfa Enemona OOD	Year ended 31.12.2011	Year ended 31.12.2010
Total revenue	526	808
Total profit for the period	179	314
Share of the Group in the profit of the associated company	72	126

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9. Current and non-current loans and receivables

Current and non-current loans and receivables as of December 31, 2011 and 2010 are as follows:

<i>Non-current loans and receivables</i>	As of 31.12.2011	As of 31.12.2010
Receivables on ESCO contracts of the Group	25,537	15,420
Receivables related to securitization with counterparties outside the Group	1,890	9,913
Cession receivables	5,181	-
Loans granted to non related parties	-	136
Loans granted to employees	2,060	3,238
Other assets	15	16
TOTAL NON-CURRENT LOANS AND RECEIVABLES	34,683	28,723
Impairment of loans granted to employees (note 27.1)	(973)	-
TOTAL NON-CURRENT LOANS AND RECEIVABLES, NET	33,710	28,723
 <i>Current loans and receivables</i>	 As of 31.12.2011	 As of 31.12.2010
Receivables on ESCO contracts of the Group	6,497	3,730
Receivables related to securitization with counterparties outside the Group	1,224	2,839
Cession receivables	1,845	-
Loans granted to non related parties	16,543	11,569
Other assets	-	24
TOTAL CURRENT LOANS AND RECEIVABLES	26,109	18,162
Impairment of loans granted to non related parties (note 27.1)	(4,953)	-
TOTAL CURRENT LOANS AND RECEIVABLES, NET	21,156	18,162

Receivables on ESCO contracts of the Group represent receivables on contracts for engineering performance with guaranteed result (ESCO contracts), under which the engineering activities are performed by the Group and deferred payment has been negotiated.

Receivables related to securitization represent receivables, acquired under cession contracts with companies not in the Group.

As of 31 December 2011 cession receivables comprise present value of the transferred receivable to local company.

Loans granted to related parties, non related parties and employees are not secured and have interest rate of 6% to 10%.

As of December 31, 2011 and 2010 non-current loans and receivables to the amount of BGN 8,337 thousand and BGN 11,676 thousand, respectively, are pledged as collateral under debenture loan and loan from The European Bank for Reconstruction and Development (EBRD) –see note 16.

The movement of the impairment allowance is presented below:

	As of 31.12.2011	As of 31.12.2010
Balance at the beginning of the year	-	-
Recognized impairment of non-current loans and receivables	973	-
Recognized loss from impairment of current loans and receivables	4,953	-
Balance at the end of the year	5,926	-

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10. Available for sale financial assets

	As of 31.12.2011	As of 31.12.2010
Compensatory instruments	-	49
Total financial assets available for sale	-	49

In 2011 the Group disposed of its compensatory instruments through the sale of subsidiaries.

11. Goodwill

	КЪМ 31.12.2011	КЪМ 31.12.2010
Cost of goodwill	3,413	3,413
Impairment of goodwill	(1,300)	-
Carrying amount	2,113	3,413

Goodwill amounting to BGN 3,413 thousand is formed by acquiring the subsidiary EMKO AD in 2008. The amount of goodwill is determined as a difference between the acquisition cost and the acquired share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of the acquired company.

As of December 31, 2011 the Group carried out an impairment review of the recoverable amount of the goodwill and ascertained impairment indicators. For the valuation of the goodwill the Group used the method of the free cash flows to the firm and the expected future cash flows which will be generated by the entity during the next five years are discounted to their present value as of the reporting date with the weighted-average cost of capital. Due to the absence of comparative transactions in the field of operations of the entity, as well as market deals at the Bulgarian Stock Exchange, the fair value valuation is not applicable for determining the valuation of the investment. For the purposes of this analysis, the goodwill is allocated to a construction cash generating unit – subsidiary EMKO AD.

As a result of the analysis, the Group recognized an impairment loss for the goodwill in EMKO AD at the amount of BGN 1,300 thousand (reference to note 27.1)

12. Inventories

	As of 31.12.2011	As of 31.12.2010
Materials	4,262	9,545
Finished goods	-	276
Goods	21	10
Unfinished goods	391	2,414
TOTAL	4,674	12,245

As of December 31, 2011 the Group recognized an impairment of inventory at the amount of BGN 88 thousand (2010: BGN 48 thousand), presented in the consolidated statement of comprehensive income for the year (reference to note 27.1).

As of December 31, 2011 inventories at cost to the amount of BGN 3,912 thousand (2010: BGN 4,466 thousand) are pledged as collateral under loans (see also note 16).

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13. Trade and other receivables

	As of 31.12.2011	As of 31.12.2010
Receivables from customers	28,291	32,476
Advances to suppliers	9,268	14,364
Retentions	5,979	5,192
Advances to employees	225	55
Receivables from related parties	1	13
Other receivables	3,391	6,240
TOTAL TRADE AND OTHER RECEIVABLES	47,155	58,340
Impairment of receivables from customers	(5,941)	(860)
TOTAL TRADE AND OTHER RECEIVABLES, NET	41,214	57,480

As of December 31, 2011 and 2010 trade and other receivables at the amount of BGN 30,774 thousand and BGN 41,303 thousand, respectively, are pledged as collateral under loan contracts (see also note 16).

The movement of the allowance for impairment of uncollectable receivables is presented below:

	As of 31.12.2011	As of 31.12.2010
Balance at the beginning of the year	860	649
Recognized loss from impairment of receivables	5,308	298
Recovered during the period	(44)	(86)
Reintegrated loss from impairment	(183)	(1)
Balance at the end of the year	5,941	860

When determining the recoverability of the receivables the Group considers the changes in the credit risk of the trade and other receivables as of the date of origination until the end of the reporting period.

Receivables which are overdue for less than 1 year are not considered impaired, because of the nature of the operating cycle of the Group. Trade and other receivables include receivables, which are overdue for more than 1 year, but management considers that they are recoverable, because the customers' credit standing has not been deteriorated. Receivables from customers, which are overdue but not impaired, are as follows:

	As of 31.12.2011	As of 31.12.2010
1 - 1.5 years	2,332	5,277
1.5 – 2 years	386	1,099
Over 2 years	1,621	1,685
Total	4,339	8,061

Receivables from customers, which are overdue but not impaired, are not secured and the Group has no legal right to offset these receivables with its own receivables to respective counterparties.

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13. Trade and other receivables (continued)

The ageing analysis of the impaired receivables from customers as of December 31, 2011 and 2010 is as follows:

	As of 31.12.2011	As of 31.12.2010
Below 1 year	2,065	932
1 - 1.5 years	3,843	78
1.5 – 2 years	318	72
Over 2 years	2,979	607
Total	<u>9,205</u>	<u>1,689</u>

14. Cash and cash equivalents

	As of 31.12.2011	As of 31.12.2010
Cash at banks	10,272	5,119
Restricted cash at bank	577	1,153
Cash in hand	889	356
TOTAL CASH IN HAND AND AT BANKS	<u>11,738</u>	<u>6,628</u>

As of December 31, 2011 restricted cash represents cash in bank account restricted as a collateral under issued bank guarantees (see also note 34).

As of December 31, 2010 restricted cash at the amount of BGN 1,055 thousand represents cash in bank account restricted as a collateral under loan contract of the subsidiary EESF REIT for the loan period which expires on October 6, 2011.

For the consolidated cash flow statement purposes restricted cash is not included in cash and cash equivalents.

15. Issued share capital and reserves

Issued share capital includes:

	As of 31.12.2011	As of 31.12.2010
Ordinary shares – note 15.1	11,934	11,934
Preferred shares – note 15.2	1,103	1,103
Premiums from share issuance – note 15.3	36,262	36,262
TOTAL ISSUED SHARE CAPITAL	<u>49,299</u>	<u>49,299</u>

15.1. Ordinary shares

	As of 31.12.2011	As of 31.12.2010
Number of shares	11,933,600	11,933,600
Nominal value per share in BGN	1	1
SHARE CAPITAL – ORDINARY SHARES	<u>11,934</u>	<u>11,934</u>

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15. Issued share capital and reserves (continued)

15.1. Ordinary shares

As of December 31, 2011 and 2010 ownership of ordinary shares is as follows:

	As of 31.12.2011	%	As of 31.12.2010	%
Dichko Prokopiev Prokopiev	7,176,153	60.13	7,176,153	60.13
Other shareholders	4,757,447	39.87	4,757,447	39.87
TOTAL ORDINARY SHARES	11,933,600	100.00	11,933,600	100.00

The share capital of ordinary shares is fully paid in as of December 31, 2011 and 2010. Group's share capital includes in-kind contribution in the form of titles of property over three combined trademarks, with fair value to the amount of BGN 1,400 thousand obtained through independent appraiser's report. Titles of property are presented as intangible assets (see note 6 above).

Enemona AD is registered as a public company and its shares are traded on the Bulgarian Stock Exchange.

15.2. Preferred shares

On April 2, 2010 the Financial Supervision Commission registered for trading on a regulated market the issuance of the Parent-company's preferred shares. The issue is realized in the amount of BGN 1,103 thousand, divided into 1,102,901 preferred shares without voting rights with a guaranteed dividend, guaranteed liquidation share portion, convertible into ordinary shares in March 2017 with a nominal value of BGN 1 each. The preferred shares carry out a guaranteed cumulative dividend of BGN 0.992 per share over the next 7 years.

Upon initial recognition the Parent-company has accounted for the issued preference shares as compound financial instrument and has recognized a financial liability in respect to the obligation for dividends' payment, and the residual value is recorded as an increase in equity. The total value of funds received is distributed as follows:

	Upon initial recognition	As of 31.12.2011
Preferred shares – par value	1,103	1,103
Premiums from share issuance	5,425	5,425
Financial liability on preferred shares	4,412	3,747
Dividend payables on preferred shares	-	972
TOTAL CASH RECEIVED	10,940	

15.3. Premiums from share issuance

	As of 31.12.2011	As of 31.12.2010
Balance as of January 1	36,262	30,837
Premiums from preferred shares issuance	-	5,425
Balance as of December 31	36,262	36,262

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15. Issued share capital and reserves (continued)

15.4. Reserves

Group's reserves represent legal reserves and are formed based on decision of the shareholders. Legal reserves could be used to cover accumulated losses or for capital increase.

In 2009 the Parent company issued 5,966,800 warrants with issue value BGN 0.17 each and total issue value BGN 1,014 thousand. This amount, net of issuance expenses, is presented as increase of legal reserves of the Group.

Each warrant of the issuance gives the right to its owner to subscribe a share in case of future capital increase of the Parent company against payment of issue value of the new shares at the amount of BGN 18.50 each. This right can be exercised within 6 years.

15.5. Dividends

With decision of the General Meeting from June 30, 2011 the Parent company has distributed dividend on preferred shares at total amount of BGN 881 thousand, which presents BGN 0.799111 per share. September 1, 2011 is the date at which the shareholders are eligible for dividend.

16. Loans

Loans, received by the Group as of December 31, 2011 and 2010 are as follows:

	As of 31.12.2011	As of 31.12.2010
Debenture loans	-	5,886
Borrowings from financial institutions	74,190	81,931
Borrowings from non related parties	10,557	3,835
TOTAL	84,747	91,652

16.1 Debenture loans

Issued debenture loans as of December 31, 2011 and 2010 are as follows:

ISIN Code	Issued debt securities	Maturity	As of 31.12.2011	As of 31.12.2010
BG2100021067	Non secured bonds with floating interest rate, in EUR	2011	-	2,934
BG2100041065	Bonds with fixed interest rate in EUR, secured by a pledge of receivables	2011	-	2,952
TOTAL DEBENTURE LOANS			-	15,201

As of December 31, 2010 all issued bonds are non convertible and are listed on the Bulgarian Stock Exchange. Main parameters of issued debenture loans are as follows:

ISIN Code	Par Value	Interest rate	Interest payment
BG2100021067	EUR 6,000 thousand	6-month EURIBOR + 4.75%	6-month
BG2100041065	EUR 3,000 thousand	7.625%	6-month

Principal payment on the debenture loan BG2100021067 is at 4 equal instalments at the amount of EUR 1,500 thousand each on December 29, 2009, June 29, 2010, December 29, 2010 and June 29, 2011. Principal payment on the debenture loan BG2100041065 is at 4 equal instalments at the amount of EUR 750 thousand each on May 27, 2010, November 27, 2010, May 27, 2011, November 27, 2011. As of December 31, 2011 the Group has no obligations under debenture loans.

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16. Loans (continued)

16.2 Borrowings from financial institutions

Borrowings from financial institutions, received by the Group as of December 31, 2011 and 2010 are as follows:

		As of 31.12.2011	As of 31.12.2010
Credit lines – SG Expressbank	(a)	17,855	13,563
Investment loans – DSK Bank	(b)	14,930	11,957
Credit lines – UniCredit Bulbank	(c)	14,501	14,137
Investment loans – UniCredit Bulbank	(d)	6,568	8,299
Overdraft – UniCredit Bulbank	(e)	1,467	4,684
Investment loans – UBB	(f)	-	1,708
Overdraft UBB	(g)	4,596	6,219
Credit line – City Bank branch Sofia	(h)	-	4,890
Credit line – Tokuda Bank	(i)	-	100
Credit line – ING Bank	(j)	454	496
Credit line – MKB Union Bank	(k)	1,000	-
Investment loans – Bulgarian Energy Efficiency Fund	(l)	38	192
Investment loans – EIBank	(m)	12	-
Overdraft – FIB	(n)	1,997	-
Overdraft- Investbank	(o)	1,696	-
Overdraft – Allianz Bank Bulgaria	(p)	726	-
Investment loan - European Bank for Reconstruction and Development (EBRD)	(q)	-	-
Other	(r)	8,350	11,892
TOTAL LOANS FROM FINANCIAL INSTITUTIONS		74,190	81,931

The main parameters of borrowings from financial institutions are as follows:

(a) In May 2010 a revolving credit line from Societe Generale Expressbank has granted at the amount of EUR 15,325 thousand for the purpose of financing of a project for wiring and installation of control-measurement instrumentation and automation in the third and fourth blocks of NPP - Mochovce, Slovak Republic. The loan is secured with a pledge on receivables from contract for execution, pledge of materials and equipment. As of December 31, 2011 funds utilized amount to BGN 13,691 thousand. The credit line matures on November 30, 2012.

In July 2011 the Group has signed a contract with SG Expressbank for a credit line, limited to EUR 5,000 thousand. As of December 31, 2011 BGN 4,164 thousand have been utilized. The credit line maturity is on July 31, 2012.

(b) The loan from DSK Bank is granted for the purpose of financing of Group's energy efficiency projects. The limit of the loan is EUR 7,750 thousand and as of December 31, 2011 the Group has utilized 14,930 thousand (2010: BGN 11,957 thousand). In order to secure the loan from DSK Bank Enemona AD has issued promissory note, pledge of future receivables from customers on financed projects, financial risk insurance. The loan contract matures in 2014.

(c) As of December 31, 2011 the Group has utilized BGN 14,501 thousand under five credit lines agreed with UniCredit Bulbank (2010: BGN 14,137 thousand). The limit under the credit lines totals at EUR 16,312 thousand. The Group has pledged as a collateral mortgage on land and buildings and present and future receivables from a customer. The credit lines mature on October 2011, 2012, 2015 and 2017.

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16. Loans (continued)**16.2 Borrowings from financial institutions (continued)**

(d) The Investment loan from Unicredit Bulbank is granted for the purpose of financing the construction and operation of virtual gas line and matures in October 2016, and as of December 31, 2011 amounts to BGN 3,126 thousand. In order to secure the loan the Group has established a mortgage of land and natural gas compensation and decompensation stations built on it, pledge of equipment, and pledge of present and future receivables on the project, pledge of cash. An investment loan was granted for the purchase of an office building in Sofia. Utilized amount as of December 31, 2011 amounts to BGN 3,442 thousand. The loan is secured by a mortgage on the building and its land.

(e) Overdraft loan from UniCredit Bulbank is granted with the limit of BGN 1,000 thousand and maturity at October 31, 2012. The Loan has been granted for working capital purpose and is secured by pledge of future receivables, cash and production equipment. As of December 31, 2011 BGN 1,467 thousand has been utilized.

(f) Investment loans from UBB have been granted for a purchase of land plots and production equipment. As of December 31, 2010 BGN 1,708 thousand has been utilized. The loans have been secured by a mortgage of properties of the Group and mature in 2011. As of 31 December 2011 the loans have been fully repaid.

(g) The overdraft loan from UBB has the limit of EUR 3,500 thousand and is granted for the purpose of working capital and bank guarantees and as of December 31, 2011 the total amount utilized is BGN 4,596 thousand. The loan matures on January 20, 2012. In order to secure the loan the Group has established a mortgage of lands and buildings owned by Enemona AD and pledge over assets.

(h) According to a credit line agreement with Citibank branch - Sofia as of December 31, 2010 the Group has utilized amounts of BGN 4,890 thousand. Credit line limit is EUR 9,429 thousand. The credit line matures on September 30, 2011. As of 31 December 2011 the credit line is fully repaid.

(i) In 2010 the Group has received credit line from Tokuda bank with limit of BGN 100 thousand. As of December 31, 2010 total principal has been utilized. The Group has pledged as collateral future receivables. The credit line mature on March 2011 and as 31 December 2011 has been fully paid.

(j) In 2010, the Group has received a combined limit for contingent liabilities from ING Bank at the amount of BGN 14,800 thousand, of which has been utilized BGN 454 thousand (2010: BGN 496 thousand) in the form of overdraft as of December 31, 2011. The Group has pledged as collateral present and future receivables from customers, mortgage on property belonging to the Group and has been issued a promissory note in favour of the Bank. The revolving credit agreement matures in August 2012.

(k) The Group has received three credit lines from Unionbank. The first credit line has the contractual amount of BGN 300 thousand and maturity on October 6, 2011 and is fully repaid as of December 31, 2011. The second credit line has the contractual amount of BGN 500 thousand, fully utilized as of December 31, 2011. The maturity of the second credit line is on January 31, 2012. Credit lines are secured with a pledge on receivables. The third credit line has the contractual amount of BGN 500 thousand and maturity at 31 January 2012. As of 31 December 2011 the credit line is fully utilized. As of the date of preparation of these consolidated financial statements the credit line is fully repaid.

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16. Loans (continued)**16.2 Borrowings from financial institutions (continued)**

(l) The Group has received investment loans from Bulgarian Energy Efficiency Fund for the purpose of financing of projects related to energy efficiency. As of December 31, 2011 the utilized amount is BGN 38 thousand (2010: BGN 192 thousand). The loans are secured with financial risk insurance and promissory note in favour of the Bank.

(m) As of June 2, 2011 the Group has received an overdraft from First Investment Bank Vratsa Branch at the amount of BGN 2,000 thousand and maturity term on April 30, 2012. As of December 31, 2011 BGN 1,997 thousand has been utilized by the Group.

(n) The Group has signed a loan with Investbank for the amount of BGN 2,000 thousand and maturity on May 26, 2012. As of December 31, 2011 BGN 1,696 thousand has been utilized. The loan is secured with a pledge on receivables.

(o) The Group has signed a loan with Alianz Bank Bulgaria for the amount of BGN 1,000 thousand and maturity on September 24, 2012. As of December 31, 2011 BGN 726 thousand has been utilized. The loan is secured with a pledge on receivables and equipment.

(p) Under a loan contract dated December 21, 2007 with the European Bank for Reconstruction and Development (EBRD) at total amount of EUR 7 million in 2010 and 2009 the Group received funds at the amount of EUR 2,335 thousand and EUR 3,000 thousand, respectively for the purpose of financing of completed projects for energy efficiency with guaranteed result (ESCO contracts). In 2011 applicable annual interest rate on the loan is as follows: for the first tranche – 6.45%, for the second tranche – 6.5%. In 2011 and 2010 interest payments have been made under contract at the amount of BGN 642 thousand and BGN 684 thousand, respectively. Principal of the loan will be repaid in equal quarterly installments (23 installments for the first tranche and 21 installments for the second tranche). The loan matures on March 4, 2015. In 2011 and 2010 part of the principal has been repaid at the amount of EUR 1,312 thousand and EUR 1,161 thousand, respectively.

Interest rates on bank loans are floating based on EURIBOR and SOFIBOR with a margin.

16.3 Debenture loans and bank loans covenants

According to the terms of the loans, the Group should comply with certain operational and financial covenants.

As of December 31, 2011 the Group met all covenants of a bank loan from EBRD with carrying amount of BGN 8,350 thousand.

As of December 31, 2011 the Group breached the financial requirement of a bank loan from EBRD with carrying amount of BGN 11,892. Under contract terms, the breach of the requirement on the loan may lead to modification of the loan as payable on demand by a creditor or to a single early demand of the total obligation, and this possibility has been foreseen to be expressed in writing by the EBRD. The loan is presented as a current liability in the consolidated financial statements as of December 31, 2010.

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16. Loans (continued)

16.3 Debenture loans and bank loans covenants (continued)

Ratio of overdue receivables

According to the terms of the loan contract with EBRD the Group maximum ratio of overdue receivables under ESCO contracts for over than 60 days to the total amount of the receivables, purchased with funds from the loan should not exceed 5%. In case of delay of payment of one or more monthly instalments the total receivable from the respective borrower is disclosed as overdue.

As of December 31, 2011 there are no receivables under ESCO contracts overdue. As of December 31, 2010 the ratio has been 15.54%, which is a breach of the requirement under the contract.

The Group has signed warrant contracts for part of its liabilities at the amounts of BGN 4,618 thousand and BGN 3,722 thousand as of 31 December 2011 and 31 December 2010, respectively. Under the terms of warrant contracts, the counterparty is constituted as co-debtor with the respective customer for part of its obligation. During 2011 and 2010 the warrantors have paid overdue installments from these customers at the amount of BGN 276 thousand and BGN 238 thousand. The Group does not have payments overdue from ESCO contracts under the loan agreement with EBRD. In addition, the fair value of receivables determined by independent appraiser for which warrant contracts are concluded is lower by BGN 39 thousand than their carrying amount.

Ratio of cash flow for debt service

Under the terms of the contract with EBRD, the Group should maintain a ratio between cash flows available for serving the obligations and the amount of next payment of the principal and interest on the loan due at minimum of 1.1. As of December 31, 2011 the ratio is 1.88. As of 31 December 2010 the ratio has been 0.84, which represents a breach of the requirements under the loan.

16.4 Loans from non-related parties

Loans from non-related parties as of December 31, 2011 comprise non-secured loans from Energomontaj AEK AD, Enemona Start AD, Enida Engineering AD, Izolko OOD and other counterparties at the amount of BGN 688 thousand, BGN 879 thousand, BGN 849 thousand, BGN 8,050 thousand and BGN 91 thousand, respectively. The loans are with interest rates between 8% and 9% and mature in 2012 as the repayment term may be prolonged with 1 month.

Loans from non-related parties as of December 31, 2010 comprise non-secured loans from Energomontaj AEK AD, Enemona Start AD, Enida Engineering AD, Izolko OOD and other counterparties at the amount of BGN 1,768 thousand, BGN 950 thousand, BGN 384 thousand, BGN 682 thousand and BGN 51 thousand, respectively. The loans are with interest rates between 8% and 9% and mature in 2011 as the repayment term may be prolonged with 1 month.

16.5 Loan repayment term

The loans received by the Group according to their contracted repayment term are as follows

	As of 31.12.2011	As of 31.12.2010
Up to one year	71,114	71,230
Over 1 year	13,633	20,422
TOTAL LOANS	84,747	91,652

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17. Finance lease

Part of the tangible fixed assets has been leased under finance lease contract. The average term of the contracts is three years. The average effective interest rate under the finance lease contracts is 7%. The fair value of the lease liabilities of the Group approximates their carrying amount.

	Minimal lease payments		Present value of minimal lease payments	
	As of 31.12.2011	As of 31.12.2010	As of 31.12.2011	As of 31.12.2010
Liabilities under finance lease with maturity:				
Up to 1 year	1,111	2,083	1,011	1,856
Between 2 and 5 years	1,455	3,710	1,400	3,517
TOTAL LIABILITIES	2,566	5,793	2,411	5,373
Less: future finance charges	(155)	(420)	-	-
PRESENT AMOUNT OF LIABILITIES	2,411	5,373	2,411	5,373

The carrying amount of assets (property, plant and equipment) acquired through finance lease as of December 31, 2011 and 2010 is BGN 4,871 thousand and BGN 8,177 thousand, respectively.

18. Long-term employee benefits

In accordance with the Bulgarian Labor Code, upon termination of labor contracts, when the employee is entitled to retirement benefits, the Group owes severance payments of 2 gross monthly salaries. In case the employee has worked for more than 10 years with the Group, the severance payment is 6 gross monthly salaries. As of December 31, 2011 and 2010 the Group has accrued BGN 108 thousand and BGN 163 thousand, respectively, for provision of long-term employee benefits as the provision is calculated by a licensed actuary.

The basic assumptions, used by the licensed actuary for calculation of the present value of liabilities are based on:

- Demographic assumptions
- Mortality chart
- Invalidization chart
- Retirement probability
- Financial assumptions
- Salary growth
- Discount rate – due to the long-term nature of the liability, a 6% discount rate has been applied.

19. Trade and other payables

	As of 31.12.2011	As of 31.12.2010
Payables to suppliers	28,871	22,154
Payables for dividends on preferred shares	972	881
Payables to employees	945	1,395
Payables to social insurance organizations	356	433
VAT payables	1,182	502
Other payables	3,297	1,645
TOTAL	35,623	27,010

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20. Provisions

Provisions represent accruals for unused paid leave at the amount of BGN 378 thousand and BGN 408 thousand as of December 31, 2011 and 2010, respectively.

21. Revenue

	Year ended 31.12.2011	Year ended 31.12.2010
Revenue from construction contracts	85,149	98,446
Revenue from sale of electricity	87,781	72,244
Revenue from sale of compressed natural gas	2,949	2,525
Revenue from services	372	1,624
Others	4	
TOTAL REVENUE	176,255	174,839

The following table discloses information on construction contracts in progress at the date of the statement of financial position:

	As of 31.12.2011	As of 31.12.2010
Construction costs incurred plus recognized profits (less recognized losses) to date	231,655	202,714
Less: Progress billings	(214,292)	(168,701)
	<u>17,363</u>	<u>34,013</u>
Gross amounts stated in the statement of financial position comprise:		
Gross amount receivable from customers under construction contracts	22,567	39,928
Gross amount payable to customers under construction contracts	(5,204)	(5,915)
	<u>17,363</u>	<u>34,013</u>

Retentions held by customers under construction contracts amount to BGN 5,979 thousand and BGN 5,192 thousand as of December 31, 2011 and 2010, respectively. Advances received from customers under construction contracts amount to BGN 16,400 thousand and BGN 23,713 thousand as of December 31, 2011 and 2010, respectively.

As of December 31, 2011 the Group reviewed for objective evidences for impairment of the gross amount due from clients under construction contracts in order to ensure that the carrying amount of the asset does not exceed the present value of the expected future cash flows.

During 2011 the Group impaired gross amount due from clients under construction contracts at the amount of BGN 22,693 thousand (see note 27.1). This amount consists mainly of impairment loss on a construction contract related to projects for renewable energy resources. Due to the significant changes related to the legal framework of RER (Renewable Energy Resources) during 2011, which the Management considers as short term events, the uncertainty related to the recoverability of the investments in equipment for generation of electricity from renewable energy resources significantly increased. Recoverability of the receivables from clients related to RER depends on the legal environment regulations. Despite the collaterals and payments received from the clients, due to the described risks above, the Group recognized impairment on the project at the amount of BGN 21,806 thousand.

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22. Financial income

	Year ended 31.12.2011	Year ended 31.12.2010
Interest income	3,827	3,757
Dividend income	126	136
Foreign exchange gains	27	29
Other finance income	349	7
TOTAL FINANCIAL INCOME	4,329	3,929

23. Materials and consumables used and cost of goods sold

	Year ended 31.12.2011	Year ended 31.12.2010
Cost of goods sold	85,408	70,700
Materials:		
Construction materials	36,433	27,961
Expenses for instruments	372	420
Electric power	238	221
Fuels	478	537
Spare parts	72	111
Stationery	79	85
Other	43	61
TOTAL MATERIALS	37,715	29,396

The cost of goods sold amounting to BGN 85,408 thousand and BGN 70,700 thousand, for the year ended on December 31, 2011 and 2010, respectively, is the cost of electricity sold by the Group to third parties.

24. Hired services

	Year ended 31.12.2011	Year ended 31.12.2010
Under construction agreements with subcontractors	12,196	18,641
Services with mechanization	1,373	715
Transportation	1,250	1,294
Legal and consulting services	2,240	4,680
Insurances	1,482	435
Advertising services	81	66
Telecommunications	189	274
Rents	501	1,159
Charges for mortgages and guarantees	1,444	-
Design services	349	2,026
Bank fees	388	1,632
Heating	94	-
Working permissions and tender documents	14	-
Other services	2,568	3,257
TOTAL HIRED SERVICES	24,169	34,179

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24. Hired services (continued)

Expenses for other hired services in 2011 and 2010 are shown in the table below:

	Year ended 31.12.2011	Year ended 31.12.2010
Production control and construction supervision	407	961
Rent and consumables for the equipment and machinery	174	-
Security	138	155
Training	71	83
Office consumables	95	202
Tax and accounting services and audit	220	401
Translation services	118	-
Commissions	17	-
Subscription and membership fees	345	205
Vehicle maintenance and parking	180	329
Medical services	47	84
Current repair works	37	195
Notary and municipal fees	4	95
Other	715	547
TOTAL EXPENSES FOR OTHER HIRED SERVICES	2,568	3,257

25. Employee benefit expenses

	Year ended 31.12.2011	Year ended 31.12.2010
Remunerations	23,928	26,743
Social security and health insurance	3,473	3,663
Compensations	958	-
TOTAL EMPLOYEE BENEFITS EXPENSES	28,359	30,406

26. Other expenses

	Year ended 31.12.2010	Year ended 31.12.2009
Business trips	2,443	967
Food vouchers	671	915
Expenses for one-off taxes and fees	477	399
Waste on non-current assets	57	23
Other	601	337
TOTAL OTHER EXPENSES	4,249	2,641

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27. Other gains, net

	Year ended 31.12.2011	Year ended 31.12.2010
Proceedings from sale of non-current assets	620	394
Carrying amount of sold and written-off non-current assets	(495)	(455)
Gains on sale of non-current assets	125	(61)
Proceedings from sale of materials	1,228	3,490
Carrying amount of materials sold	(1,077)	(3,453)
Gains on sale of materials	151	37
Profit from revaluation of shares for trading (note 27.2)	42,117	-
Rent income	413	439
Gains on financing	111	269
Payables written-off	-	118
Income from consulting services	67	19
Impairment and write-off of assets (note 27.1)	(35,421)	(292)
Loss from sale of receivables	(1,391)	-
Other	515	170
TOTAL OTHER GAINS, NET	6,687	699

For the year ended December 31, 2010 the Group reclassified impairment of receivables at the amount of BGN 292 thousand from other expenses to other gains, net.

27.1. Impairment and writing off of assets

Complying with the requirements of IAS 39, the Group developed qualitative and quantitative indicators for the valuation of the risks related to its exposures to clients and for determination the amount of impairment for accounting purposes on an individual basis.

Qualitative and quantitative indicators for valuation of risks include overdue payments, credit rating, deterioration of the market positions of the client and change of the legal environment in which the Group operates.

Each exposition is separately valued and if the risks described above are identified, an impairment loss is recognized. Determining the amount of impairment includes consideration of the expected future cash flows under the identified circumstances.

As of December 31, 2011 the Group analyzed total contract revenue and total estimated costs for construction contracts which are not completed as of the end of the reporting period and recognized impairment losses in the statement of comprehensive income for those construction contracts for which the total estimated profit is lower than the profit already recognized in prior reporting periods.

As of December 31, 2011 the Group reviewed for objective evidences for impairment of the current and non-current loans and receivables and investments in subsidiaries and recognized impairment losses at the amount with which the carrying amounts of the assets exceed their recoverable amount. Recoverable amount is determined as the higher of fair value less costs to sell and value in use.

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27. Other gains, net (continued)

27.1. Impairment and writing off of assets (continued)

		As of 31.12.2011	As of 31.12.2010
Impairment of gross amount due from clients under construction contracts – note 21	(a)	(22,693)	-
Impairment of receivables – note 13	(c)	(5,308)	(292)
Impairment of current loans and receivables – note 9	(c)	(4,953)	-
Impairment of goodwill	(b)	(1,300)	-
Impairment of non-current loans and receivables – note 9	(d)	(973)	-
Impairment of inventory – note 12		(88)	-
Impairment of property, plant and equipment – note 4		(179)	-
Impairment of investment property		(16)	-
Impairment of investments		(2)	-
Reversal of impairment of inventory – note 12		47	-
Reversal of impairment of receivables – note 9		44	-
		<u>(35,421)</u>	<u>292</u>

(a) The impairment of the gross amounts due from clients under construction contracts consists mainly of impairment loss of a construction contract related to projects for renewable energy resources. Due to the significant changes related to the legal framework of RER (Renewable Energy Resources) during 2011, which the Management considers as short term events, the uncertainty related to the recoverability of the investments in equipment for generation of electricity from renewable energy resources significantly increased. Recoverability of the receivables from clients related to RER depends on the legal environment regulations. Despite the collaterals and payments received from the clients, due to the described risks above, the Group has recognized impairment loss.

(b) During 2011 the Company performed an impairment testing of the goodwill, recognized at the acquisition of investment in EMKO AD. The analysis is performed based on the expected discounted future cash flows of the subsidiary for 5 years. As a result of the analysis, the Group recognized impairment loss at the amount of BGN 1,300 thousand.

(c) As a result of the global financial crisis the uncertainty regarding the recoverability of the receivables due from the clients according to the initially contracted terms increases. Therefore, the Group changed its accounting estimates when determining the impairment of trade and other receivables and loans and receivables. Some of the changes in the estimates are related to the following: report for the credit rating of the clients from a reputable agency, analysis of the financial performance of the clients and others. As a result, during 2011 the Group recognized additional impairment as indicated in the table above. Nevertheless, the Management continues the efforts for collection of the receivables.

(d) In the past the Group has granted loans without collaterals to its employees related to the necessity to relocate, due to the relocation of the business between Sofia, Kozloduy and Galabovo. From 2010 the amount of loans granted decreased. By the end of 2011 due to the restructuring of the Group and centralization of the supervisors and administration personnel in Sofia, the maturity of some of the loans granted is prolonged with the other terms not changed. As a result, additional impairment was recognized for these loans granted.

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27. Other gains, net (continued)

27.2. Profit from revaluation of shares for trading

On December 27, 2011 Enemona AD signed a Memorandum of understanding with a public company registered on the Bulgarian Stock Exchange (the Counter party) for cooperation related to exchange of information and experience in the development of projects of renewable energy resources. As a result of the Memorandum, Enemona AD receives 15,000,000 ordinary shares, issued by the Counter party, from the biggest Counter party's shareholder. The shares are transferred to Enemona AD on December 28, 2011 outside the regulated market. According to the agreement for the transfer of 15,000,00 ordinary shares, Enemona AD has the right to pay for the shares an amount equal to their par value in three-years-period from their acquisition or to transfer their ownership back after the expiration of that period. Enemona AD discounts its liability regarding the purchase price and recognizes liability on financial assets held for trading in the statement of financial position at the amount of BGN 11,583 thousand.

The Company classifies the acquired shares of the Counter party as financial assets held for trading. In 2011 the Company recognizes profit from revaluation of financial instrument at the amount of BGN 42,117 thousand, which is calculated as the difference between acquisition price and market value of the shares as determined by the active quotation of the Bulgarian Stock Exchange. The market price used for the revaluation is the price of the last transaction on the regulated market of the Bulgarian Stock Exchange. As of December 31, 2011 the Company recognizes financial asset held for trading in the statement of financial position at the amount of BGN 53,700 thousand.

28. Finance costs

	Year ended 31.12.2011	Year ended 31.12.2010
Interest expense	4,772	4,652
Finance costs on construction contracts	1,207	338
Expenses on financial liability on preferred shares	639	670
Foreign exchange losses	74	72
Other finance cost	301	191
TOTAL FINANCE COST	6,993	5,923

29. Discontinued operations

On March 31, 2011 Enemona AD signed a sale agreement with Sofia France Auto AD for 10,497,999 ordinary registered shares being 99.98% of the share capital of the subsidiary Agro Invest Engineering AD. The purchase price is at the amount of BGN 18,421,758. The transaction includes also a package of 49.96% of the shares of Lomsko pivo AD.

On June 28, 2011 the Parent Company signed contracts for sale of 90% of the share capital of Neo Agro Tech AD for the amount of BGN 45 thousand and for sale of 80% of the share capital of Solar Energy OOD for BGN 4 thousand.

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29. Discontinued operations (continued)

The combined results from discontinued operations for the periods ending December 31, 2011 and 2010 are presented below:

	Year ended 31.12.2011	Year ended 31.12.2010
Revenue	1,808	10,890
Finance income	7	33
Changes in inventories in finished goods and work in progress	275	(788)
Expenses	(2,852)	(8,586)
Profit/(loss) before tax	(762)	1,549
Attributable income tax expense	-	10
Loss on disposal of operations	(4,560)	-
Profit/(loss) from discontinued operations	<u>(5,322)</u>	<u>1,559</u>

Cash flows from discontinued operations for the periods ending December 31, 2011 and 2010 are presented below:

	Year ended 31.12.2011	Year ended 31.12.2010
Cash inflows from operating activities	275	1,702
Cash outflows from investing activities	(192)	(733)
Cash outflows from financing activities	(294)	(2,008)
Net cash outflows	<u>(211)</u>	<u>(1,039)</u>

The loss recognized from the sale of investments in subsidiaries is as follows:

	Year ended 31.12.2011
Consideration	18,471
Direct expenses	(180)
Net value of the assets sold	(26,861)
Non controlling interests written off	4,010
Loss from the sale of investments in subsidiaries	<u>(4,560)</u>

Net cash inflow on disposal of subsidiaries reported in the consolidated statement of cash flows consists of the following:

	Year ended 31.12.2011
Proceeds from sale of subsidiaries	10,471
Decreased by: Cash and cash equivalents of the disposed subsidiaries	(133)
Net inflows from the sale of investments in subsidiaries	<u>10,338</u>

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30. Taxation

Deferred taxes are as follows:

	As of 31.12.2011	As of 31.12.2010
Deferred tax assets		
Impairment of receivables	3,373	67
Impairment of investments	245	-
Provisions	137	68
Non-current assets	(1,198)	(2,009)
	<u>2,557</u>	<u>(1,874)</u>
TOTAL DEFERRED TAX ASSETS	<u>2,626</u>	<u>-</u>
TOTAL DEFERRED TAX LIABILITIES	<u>69</u>	<u>1,874</u>

Deferred tax assets and liabilities as of December 31, 2011 and 2010 are calculated by applying tax rate of 10% according to the Corporate Income Taxation Act and applicable for the periods in which the temporary differences will be realized.

Income tax expenses for the year ended December 31, 2011 and 2010 are as follows:

	Year ended 31.12.2011	Year ended 31.12.2010
Current income tax expense	(1,064)	(354)
Deferred tax in relation to occurrence and reversal of temporary differences	3,486	(45)
TOTAL TAX INCOME/(EXPENSE)	<u>2,422</u>	<u>(399)</u>

The calculations for the effective interest rate are presented in the following table:

	Year ended 31.12.2011	Year ended 31.12.2010
Profit before taxation	(2,503)	3,287
Applicable tax rate	10%	10%
Tax by applicable tax rate	(250)	329
Tax effect of the non-deductable and non-taxable positions	(2,389)	(36)
Effect of different tax rates in other tax jurisdictions	217	106
TAX (INCOME)/EXPENSE	<u>(2,422)</u>	<u>399</u>
EFFECTIVE TAX RATE	<u>(97%)</u>	<u>12%</u>

31. Earning per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the shareholders of the Parent Company to the weighted-average number of ordinary shares outstanding for the period.

	As of 31.12.2011	As of 31.12.2010
Continuing and discontinued operations		
Share of net profit for Parent Company shareholders from continuing and discontinued operations	(4,973,000)	4,662,000
Weighted-average number of ordinary shares	<u>11,933,600</u>	<u>11,933,600</u>
Earnings per share (in BGN) – basic and diluted	<u>(0.41)</u>	<u>0.39</u>

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31. Earning per share (continued)

	As of 31.12.2011	As of 31.12.2010
Continuing operations	<u>31.12.2011</u>	<u>31.12.2010</u>
Share of net profit for Parent Company shareholders from continuing and discontinued operations	(4,973,000)	4,662,000
Profit (loss) from discontinued operations	5,322,000	(1,559,000)
Share of net profit for Parent Company shareholders from continuing operations	349,000	3,103,000
Weighted-average number of ordinary shares	11,933,600	11,933,600
Earnings per share (in BGN) – basic and diluted	<u>0.03</u>	<u>0.26</u>

The diluted earnings per share are equal to the basic earnings per share because the Group has no antidilutive securities.

As disclosed in Note 15, as of December 31, 2011 and 2010 the Parent company has issued warrants and preferred shares, which in 2011 and 2010 do not influence diluted earnings per share as their conversion to ordinary shares would not have dilutive effect on basic earnings per share.

32. Related parties transactions

The related parties within the Group with transactions performed in 2011 and 2010 are as follows:

RELATED PARTY	TYPE OF RELATIONSHIP
Alfa Enemona OOD	Associated company
Global Capital OOD	Company under common control
G Oil Expert EOOD	Company under common control
Eco Invest Holding AD	Company under common control
Resource Engineering EOOD	Company under common control
Softgeo-Lint 2006 OOD	Company under common control

The table below discloses income received from related parties:

	Year ended 31.12.2011	Year ended 31.12.2010
Alfa Enemona OOD	152	136
G Oil Expert EOOD	3	3
TOTAL INCOME FROM RELATED PARTIES	<u>155</u>	<u>139</u>

Income from related parties consists mainly of dividend income.

During 2011 and 2010 the Group has no expenses on related parties transactions.

The table below discloses the balances of receivables from related parties as of December 31, 2011 and 2010:

	As of 31.12.2011	As of 31.12.2010
Global Capital OOD	-	11
Eco Invest Holding AD	-	2
G Oil Expert EOOD	1	-
TOTAL	<u>1</u>	<u>13</u>

Receivables from related parties consist of trade receivables (note 13).

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32. Related parties transactions (continued)

The table below discloses the balances of liabilities to related parties as of December 31, 2011 and 2010:

	Year ended 31.12.2011	Year ended 31.12.2010
Alfa Enemona OOD	7	-
TOTAL	7	-

Liabilities to related parties consist of gross amount due to clients under construction contracts.

In 2011 and 2010 management personnel has been paid remuneration at the amount of BGN 2,548 thousand and BGN 3,035 thousand, respectively.

33. Financial instruments, financial risk and capital management

33.1 Categories of financial instruments

	As of 31.12.2010	As of 31.12.2009
Financial assets		
Financial assets at fair value	53,700	-
Loans and receivables	109,379	144,292
Investments available for sale	-	49
Cash and cash equivalents	11,738	6,628
Financial liabilities		
Financial liabilities at amortized cost	137,263	128,238

Financial assets at fair value include 15,000,000 ordinary shares of a listed company, traded at Bulgarian Stock Exchange (BSE). The Group acquired the portfolio on December 28, 2011 at Over the Counter market. The equity instruments are classified at initial recognition as held for trading. The reason for this classification is the purpose of the shares – trading for taking advantage of short term movements in the share price. As of December 31, 2011 the Group measured the portfolio at fair value, determined using active quote from observable market – Bulgarian Stock Exchange (BSE). The active quote is determined as the closing price of the last transaction with the instrument on the regulated BSE market. The shares are traded at BSE only.

Enemona AD has the right to pay for the shares an amount equal to their par value in three-years-period from their acquisition or to transfer their ownership back after the expiration of that period. The Group discounts its liability regarding the purchase price and recognizes liability on financial assets held for trading in the statement of financial position at the amount of BGN 11,583 thousand

Loans and receivables include loans granted by the Group including other current assets and other non-current assets as well as trade and other receivables and gross amounts due from customers on construction contracts.

Financial liabilities at amortized cost include loans received by the Group, lease liabilities as well as trade and other payables, liabilities for dividends on preferred shares and liabilities on investments held for trading.

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33. Financial instruments, financial risk and capital management

33.2 Fair value of financial instruments, measured at amortized cost

IFRS 7 "Financial instruments-disclosures" sets out the requirement regarding disclosures to the financial statements to contain information about the methods used to determine the fair value of financial assets and liabilities, which are not presented at fair value in the statement of financial position.

Information about the carrying amount and fair value of financial assets and liabilities is presented in the following table:

	Carrying amount		Fair value	
	As of 31.12.2011	As of 31.12.2010	As of 31.12.2011	As of 31.12.2010
Financial asset				
Loans and receivables	109,379	144,292	109,379	144,292
Available for sale investments	-	49	-	49
Cash and cash equivalents	11,738	6,628	11,738	6,628
Financial liabilities				
Financial liabilities at amortized cost	137,263	128,328	137,263	128,328

Management considers that the fair value of financial instruments approximates their carrying amount.

33.3 Fair value estimation of financial instruments, measured at fair value.

IFRS 7 sets out the requirement to disclose the valuation techniques used to determine the fair value of financial instruments, measured at fair value after initial recognition in the statement of financial position. IFRS 7 introduces hierarchy of methods used in fair value determination, based on the level of observation of the input data utilized in the fair value estimation. Observable data represents the market estimations of the Group. Both data – observable and unobservable set up the following three hierarchy levels of the fair values:

Level 1 – Fair value estimation, based directly on the active market quotes for identical assets or liabilities

Level 2 – Fair value estimation, based on the unobservable data, which differ from the values determined in Level 1, but are directly or indirectly based on them and in correlation with the asset or liability.

Level 3 – Fair value estimation using valuation technique, which inputs are not based on the market information (unobservable data).

The table below presents information for the financial instruments designated at fair value distributed in the levels from 1 to 3:

	Level 1	Level 2	Level 3	Total
Financial assets held for trading	-	-	-	-
- Equity instruments	53,700	-	-	53,700
Total assets	53,700	-	-	53,700

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33. Financial instruments, financial risk and capital management (continued)

33.4 Management of risks related to financial instruments

Credit risk

The Group is exposed to credit risk in case the customers fail to meet their obligations.

Transactions with the main contractors of the Group are as follows:

Name	Type	Carrying amount of receivable as of 31.12.2011	Carrying amount of receivable as of 31.12.2010
Contractor 1	In the country	15,106	18,499
Contractor 2	Abroad	9,234	8,047
Contractor 3	In the country	7,727	10,077
Contractor 4	In the country	5,089	27,919
Contractor 5	In the country	4,561	-

Carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The trade and other receivables and the gross amount due from customers on construction contracts are not secured by collateral, with the exception of a receivable from Contractor 4 under a construction contract, as described in the paragraph below.

Receivables from Contractor 4 includes gross amount due from the contractor under a construction contract at the amount of BGN 441 thousand and BGN 20,836 thousand as of December 31, 2011 and 2010. The contract was signed in 2009 and is in a process as of December 31, 2011 and 2010. As of the date of these consolidated financial statements the parties are performing their respective obligations based on the contracted terms. To secure the collectability of the receivable in 2010 the Group negotiated and received payment under the contract at the amount of BGN 2,500 thousand. The Group also signed a contract with the majority shareholder of the client for conditional acquisition of 98% of the shares of the client for the total amount of BGN 1, provided that the client does not settle its liabilities to the Group under the construction contract.

Due to the significant changes related to the legal framework of RER (Renewable Energy Resources) during 2011, which the Management considers as short term events, the uncertainty related to the recoverability of the investments in equipment for generation of electricity from renewable energy resources significantly increased. Recoverability of the receivables from clients related to RER depends on the legal environment regulations. Despite the collaterals and payments received from the clients, due to the described risks above, the Group recognized impairment on the projects.

Liquidity risk

Liquidity risk is the risk that the Group may have difficulties in meeting its obligations related to settling financial liabilities, which require payment of cash, cash equivalents or other financial asset. Liquidity risk arises from the time difference between the agreed maturity of monetary assets and liabilities and the possibility that debtors may not be able to settle their obligations to the Group in terms due.

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33. Financial instruments, financial risk and capital management (continued)

33.4 Management of risks related to financial instruments (continued)

Liquidity risk (continued)

As of December 31, 2011 and 2010 the undiscounted cash flows on financial liabilities of the Group, analyzed by residual term as of the date of the consolidated statement of financial position until the date of subsequent negotiating or maturity, are as follows:

As of December 31, 2011	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>Total</u>
<i>Financial liabilities</i>				
Trade and other payables	20,476	14,126	184	34,786
Loans	4,706	74,536	11,882	91,124
Finance lease liabilities	155	956	1,455	2,566
Liability on financial assets held for trading	-	-	6,792	6,792
Finance liability on preferred shares	-	-	15,000	15,000
Total financial liabilities	<u>25,337</u>	<u>89,618</u>	<u>35,313</u>	<u>150,268</u>

As of December 31, 2010	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>Total</u>
<i>Financial liabilities</i>				
Trade and other payables	17,769	9,241	-	27,010
Loans	29,401	45,390	21,443	96,235
Finance lease liabilities	464	1,392	3,517	5,373
Finance liability on preferred shares	-	-	7,671	7,671
Total financial liabilities	<u>47,634</u>	<u>56,023</u>	<u>32,631</u>	<u>136,289</u>

Current loans of the Group include credit lines and overdraft with maturity in 2011. The Group usually renegotiates part of the credit lines and overdrafts.

The Group has obtained credit lines from Societe General Expressbank and Citibank Sofia Branch, which have been granted for the purpose of carrying out specific construction contracts (see also note 16). As of 31 December 2011 and 2010 the utilized amount under the credit line from Societe General Expressbank is BGN 17,855 thousand and 13,563 thousand respectively and the utilized amount under the credit line from Citibank Sofia Branch as of 31 December 2011 and 2010 is BGN 0 thousand and BGN 4,890 thousand respectively. The payment of these loans is dependent on fulfilling the obligations of the Group under the respective contract and the cash flows generated by the specific construction contract.

Foreign currency risk

As the Group operates in the country and in the EU it is exposed to insignificant foreign currency risk. A small percentage of income/expenses are generated in foreign currency different from the Bulgarian lev and Euro. Therefore, the management of the Group considers that the effect from possible change in exchange rates would not have significant effect on profit or loss.

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33. Financial instruments, financial risk and capital management (continued)

33.4 Management of risks related to financial instruments (continued)

Interest rate risk

The Group is exposed to interest rate risk fluctuation mainly from received bank and debenture loans with floating interest rate which are at the amount of BGN 50,228 thousand and BGN 57,790 thousand as of December 31, 2011 and 2010 and the interest payments are based on EURIBOR and SOFIBOR plus margin. As of December 31, 2011 and 2010 the Group has not used instruments for compensating the potential changes of the EURIBOR levels.

If the interest rates for these loans with floating interest rate increased by 0.5% in 2011 and 2010, the interest expense for the year would increase, and profit after taxation would decrease by BGN 251 thousand and BGN 289 thousand, respectively, and vice versa, if the interest rate decreases by 0.5%.

33.5 Capital management

The Group manages its own capital to operate as a going concern and optimize return by improving the debt/equity ratio.

The capital structure of the Group comprises cash at current accounts, loans received and equity including share capital.

The debt ratio as of December 31, 2011 and 2010 is as follows:

	As of 31.12.2011	As of 31.12.2010
Loans	84,747	91,652
Cash and cash equivalents	(11,738)	(6,628)
Loans, net of cash and cash equivalents	73,009	85,024
Equity	102,915	112,532
Debt ratio (loans, net of cash and cash equivalents to equity)	0.71	0.76

33. Contingent liabilities

As of December 31, 2011 and 2010 bank guarantees have been issued on behalf of the companies within the Group, at the amount of BGN 48,053 thousand and BGN 62,256 thousand, respectively, which relate mainly to the construction works, including energy and other facilities.

35. Segment reporting

Information regarding operating segments in these consolidated financial statements has been presented in a manner which is similar to the reports intended for the management of the Group, based on which decisions are taken for the resources, which should be allocated to the segment and on which assessments are made for its operating results.

The operating segments in the Group are as follows:

- Engineering, construction and assembly works (including energy-efficiency activities);
- Trade with electricity;
- Other segments, which include – trade in compressed natural gas, asset management and others.

The table below includes revenue, expenses and results of the Group from continuing operations:

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35. Segment reporting (continued)

Income and expenses presented above include revenue from and expenses for outside clients and do not include sales between segments.

As of 31 December 2011 the expenses of “Engineering, construction and assembly work” segment include the impairment of goodwill at the amount of BGN 1,300 thousand (2010: BGN 0). The impairment loss is presented as “Other gains, net” in the segment information.

Assets and liabilities by segments:

	Segment Assets		Segment Liabilities	
	Year ended 31.12.2011	Year ended 31.12.2010	Year ended 31.12.2011	Year ended 31.12.2010
Engineering, construction and assembly work	198,208	185,892	113,414	100,537
Electricity trading	22,556	6,050	18,717	7,109
Other	26,636	58,198	12,354	29,962
Total	247,400	250,140	144,485	137,608

Geographical distribution

The Group operates in three basic geographical areas – Bulgaria, Germany and Slovakia. The Group has revenues as well from Austria, Slovenia, Serbia and other countries.

The Group’s revenue from external clients and information about non-current assets, excluding financial instruments, deferred tax assets, post-employment benefit assets, and assets arising from insurance contracts, is presented as follows:

	Revenue from external clients		Property, plant and equipment	
	Year ended 31.12.2011	Year ended 31.12.2010	As of 31.12.2011	As of 31.12.2010
Bulgaria	143,239	123,674	50,014	79,097
Austria	-	16,515	-	-
Slovenia	-	13,396	-	-
Serbia	14,289	7,926	-	-
Slovakia	13,591	9,677	1,001	312
Germany	1,877	-	34	-
Other	3,259	3,651	-	-
Total	176,255	174,839	51,049	79,409

In 2010 the Group opened a branch in Slovakia.

In 2011 the Group started activity in Germany through place of activity there.

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36. Events after the reporting period

On January 9, 2012 the Annual general meeting of the owners of the warrants, issued by Enemona, was held, on which a decision was taken that they should not be exercised, since the current market price of the underlying asset (ordinary shares) on the regulated market is below the exercise price of the warrants.

On March 1, 2012, the Federal state enterprise "Federal Energy Service Company" of the Ministry of Energy of the Russian Federation and Enemona AD signed a Memorandum of Understanding. The Memorandum aims to promote cooperation and realization of joint projects in the fields of energy efficiency and energy savings in the Russian Federation, Bulgaria and third countries of Russian and Bulgarian business entities, by attracting funding for projects, as well. The parties will share experience in the area of energy efficiency and energy savings, including technical solutions, organizational approaches and regulations. The Memorandum of Understanding also envisages sharing of experience in the implementation of ESCO contracts (contracts with guaranteed results) and personnel trainings.

On March 2, 2012, Enemona's subsidiary "EESF" SPV signed a Loan Agreement with the European Bank for Reconstruction and Development amounting to EUR 10 million for securitization of receivables arising from ESCO contracts, with providing of a collateral by Enemona AD, resulting from commitments as guarantor. The term of the loan is seven years and the annual interest rate is fixed for the whole period of the loan to the amount of 6.5%.