bulgartabac holding group

Interim Consolidated Financial Statements

of

Bulgartabac Group

for

the period from 1 January to 31 March 2011

prepared in accordance with
International Financial Reporting Standards

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 1 JANUARY - 31 MARCH 2011

	01.01. - 31.03.2011 BGN '000	01.01. - 31.03.2010 BGN '000
Sales revenue	81 380	51 311
Cost of products and services sold	(61 803)	(40 677)
	19 577	**10 634**
Cost of production below the normal capacity	(1 532)	(1 736)
Gross profit (margin)	**18 045**	**8 898**
Other operating income / (losses), net	878	613
Distribution and realisation expenses	(2 981)	(2 203)
Administrative expenses	(7 147)	(7 018)
Other operating expenses	(3 394)	(2 369)
Operating profit / (loss)	**5 401**	**(2 079)**
Finance income	736	577
Finance costs	(3 782)	(736)
Operating profit / (loss) after finance items	**2 355**	**(2 238)**
Expenses on stopped production activities in subsidiaries	(55)	(60)
Profit / (loss) before income tax	**2 300**	**(2 298)**
Income tax expense	(133)	(46)
Net profit / (loss) for the period	**2 167**	**(2 344)**
Attributable to :		
The owners of the equity of the parent company	**1 938**	**(2 267)**
Non-controlling interest	**229**	**(77)**

Sofia, 28 May 2011

Executive Director: *signature /illegible/*
(Ivan Bilarev)

Chief Accountant (preparer): *signature /illegible/*
(Diana Nikolova)
Seal of Bulgartabac Holding AD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY - 31 MARCH 2011

	01.01. - 31.03.2011 BGN '000	01.01. - 31.03.2010 BGN '000
Net profit / (loss) for the period	**2 167**	**(2 344)**
Total comprehensive income	**2 167**	**(2 344)**
Attributable to :		
The owners of the equity of the parent company	**1 938**	**(2 267)**
Non-controlling interest	**229**	**(77)**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 MARCH 2011

	31 March 2011	31 December 2010
		audited
	BGN '000	BGN '000
ASSETS		
Non-current assets		
Property, plant and equipment, incl.	220 470	212 350
1. Land	13 690	13 690
2. Buildings	65 018	65 669
3. Plant	98 157	100 313
4. Equipment	4 971	4 984
5. Motor vehicles	1 223	1 280
6. Fixtures & Fittings	1 294	1 372
7. TFA in progress	34 930	23 825
8. Other assets	1 187	1 217
Intangible assets	207	163
Investments available for sale	320	320
Deferred tax assets	460	460
Other non-current assets	1 144	1 218
	222 601	**214 511**
Current assets		
Inventories	147 028	132 351
Receivables from clients and suppliers, incl.	24 096	25 523
1. Receivables from clients	21 101	22 913
2. Advances to suppliers	2 995	2 610
Other current assets, incl.	5 370	4 003
1. Taxes refundable	2 887	3 073
2. Court and awarded receivables	257	194
3. Other receivables	776	308
Prepayments	1 450	428
Cash and cash equivalents	151 941	183 595
	328 435	**345 472**
TOTAL ASSETS	**551 036**	**559 983**
EQUITY AND LIABILITIES		
Capital attributable to the owners of the equity of the parent company		
Share capital	7 367	7 367
Reserves	106 773	106 815
Retained earnings	215 739	213 759
	329 879	**327 941**
Non-controlling interest	**45 529**	**45 301**
Total equity	**375 408**	**373 242**
LIABILITIES		
Non-current liabilities		
Long-term bank loans	11 717	6 782
Deferred tax liabilities	3 531	3 531
Retirement benefit obligations	17 202	16 838
	32 450	**27 151**
Current liabilities		
Payables to suppliers and clients	28 092	38 277
Short-term bank loans	6 487	6 486
Short-term portion of long-term bank loans	5 572	4 054
Tax liabilities	91 046	98 402
Payables to personnel	7 662	8 128
Payables to social security	1 964	1 907
Other current liabilities	2 355	2 336
	143 178	**159 590**
TOTAL LIABILITIES	**175 628**	**186 741**
TOTAL EQUITY AND LIABILITIES	**551 036**	**559 983**

Sofia, 28 May 2011

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD 1 JANUARY - 31 MARCH 2011

	01.01. - 31.03.2011 BGN '000	01.01. - 31.03.2010 BGN '000
Cash flows from operating activity		
Cash receipts from customers	250 014	224 985
Cash paid to suppliers	(87 173)	(41 845)
Cash paid to personnel and for social security	(17 810)	(16 223)
Taxes paid (other than corporate income tax)	(167 515)	(177 467)
Taxes refunded (other than corporate income tax)	597	195
Corporate income tax paid	(587)	(176)
Corporate income tax refunded	-	469
Foreign currency differences, net	(4 205)	357
Bank charges and interest on short-term loans for working capital paid	(240)	(558)
Interest received	373	405
Donations and sponsorship	(32)	(10)
Other proceeds/(payments), net	(522)	377
Net cash flows used in operating activity	**(27 100)**	**(9 491)**
Cash flows from investing activity		
Purchases of property, plant and equipment	(11 539)	(1 740)
Purchases of intangible assets	(9)	-
Sales of property, plant and equipment	26	21
Interest received on term deposits provided	538	1 061
Matured deposits with commercial banks	-	12 017
Net cash flows (used in) / from investing activity	**(10 984)**	**11 359**
Cash flows from financing activity		
Long-term bank loans received	6 708	-
Short-term bank loans received	24 482	124 656
Long-term bank loans repaid	(249)	(249)
Short-term bank loans repaid	(24 478)	(115 079)
Dividends paid	(5)	(7 924)
Dividends paid to non-controlling interest	(3)	(7)
Interest and charges paid on investment loans	(139)	(97)
Payments under finance leases	(24)	(4)
Net cash flows from financing activity	**6 292**	**1 296**
Net increase / (decrease) in cash and cash equivalents	**(31 792)**	**3 164**
Cash and cash equivalents at 1 January - *audited*	183 008	133 340
Cash and cash equivalents at 31 December	**151 216**	**136 504**
incl.:		
Cash of a company in liquidation	37	27

Sofia, 28 May 2011

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 1 JANUARY - 31 MARCH 2011

	Attributable to the owners of the equity of the parent company							
	Share capital	*Statutory reserve*	*Revaluation reserve*	*Retained earnings*	*Reserve from revaluation of a company upon declaring it in liquidation*	*Total*	**Non-controlling interest**	**Total equity**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Balance at 31 December 2010 - *audited*	**7 367**	**68 262**	**36 532**	**213 759**	**2 021**	**327 941**	**45 301**	**373 242**
Net profit for the period				**1 938**		**1 938**	**229**	**2 167**
Total comprehensive income	**-**	**-**	**-**	**1 938**	**-**	**1 938**	**229**	**2 167**
Other changes	**-**	**-**	**(42)**	**42**	**-**	**-**	**(1)**	**(1)**
* transfer to reserve "retained earnings" upon withdrawal from use (depreciation) of property, plant and equipment	-	-	(42)	42	-	-	(1)	**(1)**
Balance at 31 December 2011	**7 367**	**68 262**	**36 490**	**215 739**	**2 021**	**329 879**	**45 529**	**375 408**

for the period 1 January - 31 March 2010

	Attributable to the owners of the equity of the parent company								
	Share capital	*Statutory reserve*	*Revaluation reserve*	*Revaluation reserve for non-current assets held for sale*	*Retained earnings*	*Reserve from revaluation of a company upon declaring it in liquidation*	*Total*	**Non-controlling interest**	**Total equity**
	BGN'000	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*	*BGN'000*
Balance at 31 December 2009 - *audited*	**7 367**	**67 448**	**37 922**	**458**	**197 969**	**2 087**	**313 251**	**42 737**	**355 988**
Net loss for the period	**-**	**-**	**-**	**-**	**(2 267)**	**-**	**(2 267)**	**(77)**	**(2 344)**
Total comprehensive income	**-**	**-**	**-**	**1**	**(2 267)**	**-**	**(2 267)**	**(77)**	**(2 344)**
Changes in the parent company's participation in the ownership of the subsidiary	-	-	-	-	(139)	-	**(139)**	(391)	**(530)**
Balance at 31 March 2010	**7 367**	**67 448**	**37 922**	**459**	**195 563**	**2 087**	**310 845**	**42 269**	**353 114**

Sofia, 28 May 2011

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NOTES
TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 MARCH 2011

The consolidated financial statements of Bulgartabac Group for the period 1 January - 31 March 2011 have been prepared in accordance with Art. 100o, para. 2 of the Public Offering of Securities Act with reference to the provisions of Art. 31, para. 3, i. 2 of Ordinance No 2 – "On the prospectuses to be Published When Securities are Offered to the Public or Admitted to Trading on a Regulated Market and on Disclosure of Information by the Public Companies and the Other Issuers of Securities". Comparative data included in the Statement of Financial Position are extracted from the audited consolidated financial statements for 2010. Comparatives included in the Income Statement, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity is related to the same period (1 January – 31 March) of the previous year.

1. Accounting policy

The Group presents condensed interim consolidated financial statements for the period ended 31 March 2011 prepared in accordance with the requirements of International Accounting Standard 34 Interim Financial Reporting and therefore, not all the information and disclosures being required in relation to the annual consolidated financial statements have been included therein; thus, these financial statements shall be read together with the annual consolidated financial statements of Bulgartabac Group for 2010.

The accounting policies of Bulgartabac Group comprises principles, positions of attention, concepts, rules, bases and procedures for reporting the company's activity, presenting information in its financial statements and in the consolidated financial statement of the Group, they have been developed in accordance with the requirements of International Financial Reporting Standards (IFRS) endorsed by the Commission of the European Union. In addition, the accounting policies have been made consistent with the specifics of the industry.

The accounting policy is a component of the internal acts of the Group and its aim is to unify the rules for reporting transactions and events which have occurred under similar circumstances.

The accounting policy is mandatory for all joint stock companies of the Group. The Bulgarian companies of the Group keep their accounting books and ledgers in Bulgarian leva.

The Group has adopted all new and/or revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the Commission of the European Union that are relevant to its activity. The Group's current accounting policies have not necessitated amendments for adapting the application of all new and/or revised IFRS in effect for the current reporting year beginning on 1 January 2011, since they do not refer to its activities and the usual composition and characteristics of its assets and liabilities, or during the period there has not existed any objects or transactions that have been affected by the changes in the amended IFRS.

These standards and interpretations include:

- **IFRS 1** (amended) First-time adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2011). The amendments relate primarily to: the application of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, when they concern the first financial statements prepared in accordance with IFRS; the use of the adopted value for transactions that are subject to regulation of their value and additional requirements in the presentation of interim financial statements;
- **IFRS 1** (amended) First-time adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply in relation to the implementation of IFRIC 19 Extinguising Financial Liabilities with Equity Instruments;
- **IFRS 3** (amended) Business Combinations (effective for annual periods beginning on or after 1 January 2011). The amendments relate to: the measurement at the date of acqusition of the components of non-controling interests, share-based payment transactions and rules for assessing the price of business combinations;
- **IFRS 7** (amended) Financial Instruments: Disclosure (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply as supplemented by IFRS 3 Business Combinations (revised in 2008) and in particular, to the elimination of the exception for application of IFRS 7 regarding conditional consideration contract in the event of a business combination reported by the acquiring entity. These contracts are reported in accordance with paragraphs 65A – 65E of IFRS 3 (amended in 2010);
- **IFRS 7** (amended) Financial Instruments: Disclosure (effective for annual periods beginning on or after 1 January 2011). These amendments relate to the disclosure of qualitative information in the context of quantitative data with the aim to enable the users to make connection between this data and thus, to form an overall view of the nature and grade of risks originating from financial instruments;
- **IFRS 8** (amended) Operating Segments (effective for annual periods beginning on or after 1 January 2011). These amendments relate to the period from which the amendments in the standard apply as supplemented by IAS 24 Related Party Disclosures (revised in 2009) and in particular, the judgements about entities under the control of the State when these are determined as one separate client;
- **IAS 1** (amended) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011). The amendments relate to information to be presented in the statement of changes in equity or in the notes;
- **IAS 21** (amended) The Effects of Changes in Foreign Exchange Rates (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply as supplemented by IAS 27 Consolidated and Separate Financial Statements (as amended in 2008) and in particular, when there is a disposal or partial disposal of foreign operations;

- **IAS 24** (revised) Related Party Disclosures (applied retrospectively for annual periods beginning on or after 1 January 2011); it replaces IAS 24 Related Party Disclosures (revised in 2003);
- **IAS 28** (amended) Investments in Associates (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply as supplemented by IAS 27 Consolidated and Separate Financial Statements (as amended in 2008) and in particular, to the way of reporting by the investor of investments in an associated company where significant influence is lost;
- **IAS 31** (amended) Interest in Joint Ventures (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply as supplemented by IAS 27 Consolidated and Separate Financial Statements (as amended in 2008) and in particular, to the way of reporting by the investor of investments in an associated company where the investor ceases to have joint control over an entity;
- **IAS 32** (amended) Financial Instruments: Presentation (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply as supplemented by IFRS 3 Business Combinations (revised in 2008) and in particular, to the elimination of the exception for application of IAS 32 regarding conditional consideration contract in the event of a business combination reported by the acquiring entity. These contracts are reported in accordance with paragraphs 65A – 65E of IFRS 3 (amended in 2010);
- **IAS 32** (amended) Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010). The amendments relate to supplementing the definition of the term “financial liability” as well as the principles for distinguishing financial instruments between financial assets or equity instruments;
- **IAS 34** (amended) Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2011). The amendments relate to the need to disclose explanations about significant events and transactions, and other information in the interim financial statements, through which disclosures the relevant information, presented in the last financial statements, is updated;
- **IAS 39** (amended) Financial Instruments: Disclosure and Measurement (effective for annual periods beginning on or after 1 July 2010). These amendments relate to the period from which the amendments in the standard apply as supplemented by IFRS 3 Business Combinations (revised in 2008) and in particular, to the elimination of the exception for application of IAS 39 regarding conditional consideration contract in the event of a business combination reported by the buyer. These contracts are reported in accordance with paragraphs 65A – 65E of IFRS 3 (amended in 2010);
- **Interpretation of IFRIC 13** (amended) Customer Loyalty Programmes (effective for annual periods beginning on or after 1 January 2011). The amendments relate to the assessment of the fair value of awarded credits;
- **Interpretation of IFRIC 14** (amended) Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011). The amendments relate to the elimination of certain undesired consequences as a result of the treatement of preliminary payments of future contributions if there is a minimum requirement for funding;
- **Interpretation of IFRIC 19** (new) Extinguising Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

The effect of changes in IFRS for the Group finds expression in the change of presentation of financial statements without having an impact on the amounts reported therein, except for the introduction of new and extension of already established disclosures.

At the date of approval of these financial statements for issue the following effective standard has been amended **that is not yet effective and endorsed by the European Commission**:

- **IFRS 9** Financial Instrument (effective for annual periods beginning on or after 01 July 2013). The new Standard replaces parts of IAS 39 and specifies principles, rules and criteria for classification and evaluation of financial assets, incl. hybrid contracts. It introduces the requirement that the classification of financial assets shall be made on the basis of the business model of the company with regard to their management and of the characteristics of the agreed cash flows of the respective assets. Two main groups and respectively, types of evaluation, are introduced - at amortizable and at fair value.

2. Consolidation principles

In the preparation of the interim consolidated financial statements of BULGARTABAC Group for the period 1 January - 31 March 2011, the method of consolidation and principles of elimination applied to the consolidated financial statements for 2010 have been preserved.

The financial statements of the subsidiaries included in the interim consolidated financial statements have been consolidated based on the "full consolidation" method, line-by-line, whereas uniform accounting policies have been applied as regards the significant items. The financial statements of the subsidiaries have been prepared for the same reporting period as that of the parent company. Intra-group transactions and balances have been eliminated. The shares of third parties outside the Group have been presented separately in the statement of financial position, income statement, statement of comprehensive income, and the statement of changes in equity as non-controlling interest.

The consolidated financial statements of BULGARTABAC Group for the period 1 January - 31 March 2011 comprise the financial statements of Bulgartabac - Holding AD and its 7 subsidiaries in the country.

The subsidiary Haskovo Tabac AD in liquidation is included in the interim consolidated financial statements as well, because Bulgartabac-Holding AD, regardless of the special status of the company, still holds the control over its decisions and activities.

The consolidated financial statements for the period 1 January - 31 March 2011 include also the financial statements of the Foundation "Funding the Social Costs of Bulgartabac-Holding AD Privatisation and Restructuring", as the latter is considered part of the Group (it has been established by Bulgartabac-Holding AD with the purpose to facilitate goals relating to the restructuring of the Group and the ongoing management of its activities is carried out by a manager, who is also a Deputy Chairman of the Board of Directors of Bulgartabac-Holding AD).

The subsidiary Dulovo Tabac AD is excluded from the consolidated financial statements as at 31 December 2009 due to it being declared insolvent and the loss of control by the parent company (Note 9).

The group companies operating in Russian Federation have not been consolidated due to the following:

• the companies have not performed any business activities for the last few years and there is high uncertainty and heavy limitations as regards the future economic benefits that these companies could bring to the Group;

• The production process of the foreign companies in Russia does not meet the requirement of the Russian law to ensure closed production cycle. In order to make them compliant with the legal requirements, significant in amount additional investments by the Group are required, the making of which is not corroborated. Therefore, these companies could not operate and exist as a "going concern".

- ***OOO Tabac Industry– Moscow, Russian Federation***

The company was registered in 1999 with the main shareholder being Haskovo Tabac AD (in liquidation). The company has not performed any activities since then. The intentions of management of Bulgartabac – Holding AD are directed towards the company's liquidation and in relation to that, the liquidators of Haskovo Tabac AD (in liquidation) research the possibilities for the formal liquidation of the company. At the date of approval for issue of these financial statements the liquidation procedure has not been initiated yet.

- ***Bolgarskii Tabac OOD – Kaliningrad, Russian Federation***

The company was registered in November 2001 with the main shareholder being Pleven BT AD and is not operational at the moment.

In April 2007 a decision for the liquidation of the company was taken by the Board of Directors of Pleven BT AD.

By a decision of the Supervisory Board of Bulgartabac – Holding AD (dated 2007) a preliminary permission was given to the Managing Board to terminate the participation of Pleven BT AD in Bulgarskii Tabac OOD and to commence a liquidation procedure regarding the company.

- ***SK Bulgartabac – Podolsk, Russian Federation***

The company has been a subsidiary of Shumen Tabac AD since April 2000. Since 2001 it has not presented annual financial statements to Bulgartabac – Holding AD. There is no information as to whether it possesses a local licence for production of cigarettes. The licence for production of Bulgarian cigarettes has been terminated since March 2005.

The Managing Board of Bulgartabac – Holding AD has recommended to the Board of Directors of Shumen Tabac AD to take a decision for the liquidation of the company.

3. Nature of activity

Part of the Company's activity is of seasonal nature, namely tobacco purchase and processing.

Due to the specific requirements of tobacco, usually the period from November to June (depending on the quantity of processed tobacco) is regularly loaded up. This is also the period when the biggest part of expenses on tobacco processing is incurred. The major share in cost of finished goods –processed tobacco belongs to costs of raw materials, costs of hired services, salaries and wages, etc.

After completing the tobacco processing, additional costs are made in relation to the maintenance (growing) of the finished tobacco lots, as also other storage costs, although in much lower amounts.

4. Equity and debt instruments

Equity and debt instruments have neither been issued nor settled or redeemed for the period 1 January - 31 March 2011.

5. Dividends accrued

For the period 1 January - 31 March 2011 no decisions for distribution of dividends have been taken by the group companies.

6. Related party transactions

The type of transactions performed is the purchase and sale of materials, tobacco, cigarettes, and services. Transactions have been carried out pursuant to contracts signed at arm's length.

Upon the consolidation, intra-group transaction in the total amount of BGN 15,718 thousand and intra-group balances in the amount of BGN 18,915 thousand were eliminated.

7. Financial risk management

Structure of financial assets and liabilities by categories:

31 March 2011	**Loans and receivables**	**Assets held for sale**	**Total**
	BGN'000	**BGN'000**	**BGN'000**
Financial assets			
Investments available for sale	-	320	320
Other non-current assets	581	-	581
Receivables from clients	21,101	-	21,101
Cash and cash equivalents	151,941	-	151,941
Other current assets	715	-	715
Total financial assets	**174,338**	**320**	**174,658**

	Other financial liabilities	**Total**
	BGN'000	**BGN'000**
Financial liabilities		
Long-term bank loans	11,717	11,717
Payables to suppliers	25,136	25,136
Dividend payables	378	378
Short-term bank loans	6,487	6,487
Short-term portion of long-term bank loans	5,572	5,572
Other current liabilities	139	139
Total financial liabilities	**49,429**	**49,429**

31 December 2010	**Loans and receivables**	**Assets held for sale**	**Total**
	BGN'000	**BGN'000**	**BGN'000**
Financial assets			
Investments available for sale	-	320	320
Other non-current assets	655	-	655
Receivables from clients	22,913	-	22,913
Cash and cash equivalents	183,595	-	183,595
Other current assets	249	-	249
Total financial assets	**207,412**	**320**	**207,732**

	Other financial liabilities	**Total**
	BGN'000	**BGN'000**
Financial liabilities		
Long-term bank loans	6,782	6,782
Payables to suppliers	35,680	35,680
Dividend payables	385	385
Short-term bank loans	6,486	6,486
Short-term portion of long-term bank loans	4,054	4,054
Other current liabilities	102	102
Total financial liabilities	**53,489**	**53,489**

The Group does not have the practice of working with derivative instruments.

In the ordinary course of its business activities, the companies of Bulgartabac Group are exposed to a variety of financial risks the most important of which are market risk (including currency risk, interest rate risk and other price risk), credit risk, and liquidity risk. The general risk management is focused on the difficulties of forecasting the financial markets and minimizing the potential negative effects that might affect the financial results and position of the companies. The financial risks are currently identified, measured and monitored through various control mechanisms introduced in order to establish adequate prices for the products/services, provided by the companies, and the borrowings, to appropriately assess the market circumstances related to its investments and the forms for maintenance of free liquid funds through preventing undue concentration of a particular risk.

Risk management in each one of the group companies is currently executed by the management and the respective structural units, depending on the type and specific features of various risks to which the respective company is exposed in its operations, and respectively, by the responsible structural units of the parent company of the Group as a whole.

Below are presented the various types of risks to which the companies of Bulgartabac Group are exposed upon performing its commercial transactions as well as the adopted approach for managing these risks.

Market risk

Currency risk

The group companies perform their activities by trading actively with foreign contractors (both clients and suppliers). The main part of the operations is executed in BGN or EUR. At the same time, in its activities they perform sales to foreign clients while a certain part thereof is contracted in USD (mainly sale of tobacco products). The group companies perform also a great number of transactions with foreign contractors related to supplies, mainly of tobacco, auxiliary materials and spare parts. A large portion of tobacco supplies are made in USD. Therefore, to an extent the Group is exposed to currency risk to USD insofar the sales and supplies are affected directly by the exchange rate of USD to BGN.

A special feature is that a portion of the payments related to such sales and supplies is postponed, usually for the sales – by not more than 3 months, and the supplies of tobacco take long time – due to the used sea transport, whereas the cycle from the negotiation of a deal to its actual performance takes up to 3 months and the agreed payment terms are deferred up to 3 months from the date of supply.

Due to the economic turnover in USD, part of cash and cash equivalents of the group companies is denominated in USD.

In order to manage the currency risk and due to the centralized system for supply of imported tobacco, and respectively export of tobacco and tobacco products, the import supplies, and respectively export sales, are planned on an ongoing basis within Bulgartabac Group. In order to control currency risk, the companies have developed and apply the following measures:

- a system to plan and monitor on daily basis the movements of USD exchange rate and to exercise control over the forthcoming payments is implemented;
- actions have been undertaken by the Group to change the trade policy applied – by increasing the sales of tobacco and tobacco products in EUR, and to transform prices already agreed in USD to such in EUR, thus achieving a significant limitation of currency risk;
- the free cash proceeds in USD are invested in short-term foreign currency deposits with good yields.

The tables below summarise the Group's exposure to currency risk.

Foreign currency structure analysis

31 March 2011	In EUR	In USD	In other foreign currency	In BGN	Total
	BGN'000	***BGN'000***	***BGN'000***	BGN'000	***BGN'000***
Financial assets					
Investments available-for-sale	-	-	-	320	320
Other non-current assets	-	533	-	48	581
Receivables from clients	2,621	-	-	18,480	21,101
Cash and cash equivalents	25,384	71,650	3	54,904	151,941
Other current assets	11	376	7	321	715
Total financial assets	**28,016**	**72,559**	**10**	**74,073**	**174,658**
Financial liabilities					
Long-term bank loans	11,717	-	-	-	11,717
Payables to suppliers	4,909	13,433	8	6,786	25,136
Dividend payables	-	-	-	378	378
Short-term bank loans	6,487	-	-	-	6,487
Short-term portion of long-term bank loans	5,572	-	-	-	5,572
Other current liabilities	2	-	-	137	139
Total financial liabilities	**28,687**	**13,433**	**8**	**7,301**	**49,429**

31 December 2010	In EUR	In USD	In other foreign currency	In BGN	Total
	BGN'000	*BGN'000*	*BGN'000*	BGN'000	*BGN'000*
Financial assets					
Investments available-for-sale	-	-	-	320	320
Other non-current assets	-	571	-	84	655
Receivables from clients	-	-	-	22,913	22,913
Cash and cash equivalents	35,374	62,344	3	85,874	183,595
Other current assets	45	-	-	204	249
Total financial assets	**35,419**	**62,915**	**3**	**109,395**	**207,732**
Financial liabilities					
Long-term bank loans	6,782	-	-	-	6,782
Payables to suppliers	3,708	26,879	8	5,085	35,680
Dividend payables	-	-	-	385	385
Short-term bank loans	6,486	-	-	-	6,486
Short-term portion of long-term bank loans	4,054	-	-	-	4,054
Other current liabilities	7	-	-	95	102
Total financial liabilities	**21,037**	**26,879**	**8**	**5,565**	**53,489**

Foreign currency sensitivity analysis

The group companies are exposed to a currency risk mainly with regard to its exposure in USD. As at 31 March 2011, 41.54% of the Group's financial assets are in USD (31 December 2010: 30.29%). The table below demonstrates the currency sensitivity to a 10% increase/decrease in the current exchange rate of BGN against USD based on the structure of foreign currency assets and liabilities as at the end of both reporting periods with assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes at a tax rate of 10% (31 December 2010: 10%), and respectively, on equity - though profit.

	Change of the exchange rate by +/-10%	USD	
		31.03.2011	31.12.2010
		BGN'000	BGN'000
Financial result - profit	+	5,321	3,243
Equity (component - retained earnings)	+	**5,321**	**3,243**
Financial result (loss)	-	(5,321)	(3,243)
Equity (component - retained earnings)	-	**(5,321)**	**(3,243)**

In case of an increase by 10% in the exchange rate of the USD to the BGN as at 31 March 2011, would increase Group's profit (after tax) for the year ending 31 March 2011 by BGN 5,321 thousand (2010: an increase by BGN 3, 243 thousand) due to the effect of the increased BGN equivalent of financial assets – cash and cash equivalents, and other non-current assets, less the effect of the increase in the BGN equivalent of financial liabilities (payables to suppliers).

The analysis is based on currency exposures in USD at the end of the respective reporting period, with all other variables held constant, including interest rates. Respectively, the 10% increase in the exchange rate would have the same effect also on equity through the component 'retained earnings' (through the current profit or loss) since the equity components of the Group are not affected by foreign currency assets and liabilities, the revaluation of which is reported as other comprehensive income or directly in the equity.

A decrease by 10% of the exchange rate of the USD to BGN would have equal and reciprocal effect of the stated above, on Group's profit (after tax) and equity.

In management's opinion, the presented above sensitivity analysis based on the structure of foreign currency assets and liabilities included in the statement of financial position is representative for the currency sensitivity of the Group for the respective period.

The financial result after taxes is more sensitive to currency risk for the period 1 January – 31 March 2011 than that in the prior reporting period due to the increase in the Group's exposure in foreign currency assets denominated in USD net of foreign currency liabilities denominated in USD, net of foreign currency liabilities in USD (USD 42,949 thousand) compared to the net exposure as of 31 December 2010 (USD 24,468 thousand).

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of the financial instruments, held by the Group, will vary due to changes in market interest rates. Instruments with fixed interest are exposed to interest fair value risk - the price of Group's fixed-rate financial assets will decrease, and of the financial liabilities, will increase with the increase in the market interest rate, and vice versa. Floating-rate financial assets and liabilities are exposed to a cash flow risk - the future cash flows from floating-rate financial instruments will vary due to changes in market interest rates.

In general, interest-bearing financial assets are represented mainly, in the structure of the Group's assets, by cash and fixed-rate bank deposits. The Group manages the risk of the fair value of interest rate – usually, its companies maintain short-term fixed-rate deposits (from 1-2 weeks to 3 months), which enable the Group, in the event of significant change in the market interest rates, to re-negotiate the interest rate on the deposit contracts concluded with commercial banks. In addition, with regard to the fixed-rate deposits with commercial banks, the Group applies the following procedures for current control and risk management:

- approved procedures are followed when choosing a bank for the purpose of achieving best interest rates, as at the same time the need to diversify the risk of concentration of financial resources in the separate banks;
- market conditions are constantly analysed and the exposure of interest-bearing assets of the individual company is controlled.

The Group's share of interest-bearing assets with a floating interest rate is immaterial, and therefore, it is not exposed to a significant cash flow risk in relation to these assets.

At the same time, the Group is exposed to interest rate risk as regards the long-term and short-term loans utilized by the Group to finance its business activity. Therefore, the changes in interest rates are constantly monitored as well, and possibilities for timely re-negotiation in the event of adverse changes are sought.

The cash outflows of Bulgartabac Group are exposed to interest rate risk related to the loans agreed with floating interest rate, which amount to BGN 23,776 thousand (31 December 2010: BGN 17,322 thousand). The fixed-rate financial liabilities used by the group companies in both reporting periods comprise liabilities under finance lease and payables to suppliers amounting to BGN 12 thousand in total (31 December 2010: BGN 32 thousand). The latter expose the Group to a risk of changes in the fair value of interest rates.

31 March 2011	***Interest-free***	***With floating interest %***	***With fixed interest %***	***Total***
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
Financial assets				
Available-for-sale investments	320	-	-	**320**
Other non-current assets	-	537	44	**581**
Receivables from clients	20,075	-	1,026	**21,101**
Cash and cash equivalents	219	17	151,705	**151,941**
Other receivables	712	3	-	**715**
Total financial assets	**21,326**	**557**	**152,775**	**174,658**

Financial liabilities				
Long-term bank loans	-	11,717	-	**11,717**
Payables to suppliers	25,124	-	12	**25,136**
Dividend payables	378	-	-	**378**
Short-term bank loans	-	6,487	-	**6,487**
Short-term portion of long-term bank loans	-	5,572	-	**5,572**
Other current liabilities	139	-	-	**139**
Total financial liabilities	**25,641**	**23,776**	**12**	**49,429**

31 December 2010	***Interest-free***	***With floating interest %***	***With fixed interest %***	***Total***
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**
Financial assets				
Available-for-sale investments	320	-	-	**320**
Other non-current assets	-	576	79	**655**
Receivables from clients	21,632	-	1,281	**22,913**
Cash and cash equivalents	145	18	183,432	**183,595**
Other receivables	246	3	-	**249**
Total financial assets	**22,343**	**597**	**184,792**	**207,732**
Financial liabilities				
Long-term bank loans	-	6,782	-	**6,782**
Payables to suppliers	35,648	-	32	**35,680**
Dividend payables	385	-	-	**385**
Short-term bank loans	-	6,486	-	**6,486**
Short-term portion of long-term bank loans	-	4,054	-	**4,054**
Other current liabilities	102	-	-	**102**
Total financial liabilities	**36,135**	**17,322**	**32**	**53,489**

Funds in the current accounts bear interest rates according to the tariffs of the relevant banks, which remain relatively constant for a longer period of time, although they are affected by the changes in the basic interest rate.

The Group's management and management of the separate group companies currently monitors and analysis the exposure against changed interest rates, and measures the impact on the financial result and equity in case of change with set points or percentage of interest. For each simulation, the same assumption for interest rate shift is used for BGN and USD.

The Group’s management has performed an analysis of interest sensitivity of interest-bearing assets and liabilities (with floating interest rate) as at the end of both reporting periods while preserving the respective structure of assets and liabilities, assumption for change in the interest rate for USD and BGN by 50 basis points and ignoring the influence of other factors. The change in the interest rate of financial assets and liabilities in USD and in BGN by 50 basis points would result in a loss (after tax) of BGN 104 thousand (2010: a loss of BGN 75 thousand) in the consolidated income statement of the Group. Respectively, the same increase in the interest rate would have the same effect also on equity through the component 'retained earnings' (through the current profit or loss) since the equity components of the company are not affected by interest-bearing assets and liabilities, the revaluation of which is reported as other comprehensive income or directly in equity.

A decrease by 50 basis points of the interest rate on financial assets and liabilities (with floating interest rate) in USD and in BGN would have an equal and reciprocal effect on the Group's (after tax) profit and equity.

Price risk

The Group is exposed to a risk of possible adverse changes in the prices of raw materials and materials needed for the production of tobacco products (cigarettes).

Insofar the prices of tobacco products for export are determined on a market basis management is of the opinion that they are not exposed to a significant price risk. Analogically, there is no risk as to the prices of tobacco products for the domestic market, as these are determined on a market basis as well and are only subject to registration.

In a situation of economic crisis, the declining trend in consumption of fast-moving goods due to the decreased purchasing power has deepened and led to decreased sales of tobacco products (cigarettes) in the domestic market. In order to minimize the above effects, the Group’s management applies flexible pricing policy for its tobacco products and for increasing the export.

In order to manage the price risk as regards the cigarette prices, the Group currently monitors the status and dynamics of the market, and monitors and analyses the market, for the purposes of effective planning of supplies and optimisation of the quantities of inventories, and adequate pricing of cigarettes depending on the market environment.

Until 2010, the Group was exposed to a specific price risk upon the sales of goods and finished products (tobacco) relating to the fact that the minimum buy-out prices were determined by a Decree of the Council of Ministers (CM). In 2010 and until the date of approval of these financial statements for issue, the CM of Republic of Bulgaria did not set minimum buy-out tobacco prices for crop 2010, and respectively for 2011, and thus, the buy-out prices were determined by a management’s decision that minimized this type of risk. Moreover, the Group is exposed to possible negative changes in the prices prevailing on the global tobacco market.

In order to minimise the price risk as regards any possible negative changes in prices, the Group analyses periodically and considers its contractual relationships with the purpose of re-review and update of prices depending on the changes in the market environment.

The Group does not hold a significant portfolio of available-for-sale investments in terms of amount; the available-for-sale investments held additionally by the Group are not traded on a stock exchange and therefore, the Group is not exposed to a risk of changes in the stock prices of securities.

Credit risk

Upon performing its activities, the group companies are exposed to a credit risk related to the risk that any of its clients or other counterparts will fail to discharge the obligations, related to due amounts under trade and other receivables, in full and within the normally envisaged terms. The latter are presented in the statement of financial position at net value after deducting the impairment accrued. Such impairment is made where and when events have existed identifying losses due to uncollectability as per previous experience.

The Group's financial assets are mainly concentrated in the following groups: other non-current financial assets, other current assets, cash and cash equivalents – cash in hand and in bank accounts (current and deposit), receivables from clients, and available-for-sale investments. The maximum exposure to credit risk at the end of the reporting period is equal to the carrying amount of each class of financial assets, as disclosed in this Note.

In view of the credit risk of cash flows in bank accounts (current and deposit), the risk management in the case of active transactions with temporarily free cash includes the activities on identifying, measuring and controlling any potential events or situations, which may impact negatively the achievement of the company’s goals to ensure additional stable source of income. The object of analysis is the possible negative consequence (income outflow) which could occur as a result of an unfavourable event and the resources that will be required to overcome this event.

In view of the long-lasting experience and good practices applied, the Group applies Rules for the procedure, methods and criteria for selection of financial organizations providing cash and cash equivalent management services, payment and related services, financing, purchase of specific financial instruments, hedging transactions and other financial services (the Rules). The Rules are a methodology applied by the group companies, thus guaranteeing the achievement of maximum economic effect at minimum financial risk. With the procedure for selection of a contractor for provision of financial services an optimal ratio of “yield (benefit)/risk” is achieved. The Group applies a diversification policy through which its sets credit limits for its contractors – financial entities. The diversification policy is applied with the aim to reduce to a minimum the concentration of risks and to guarantee stability and steadiness.

As a consequence of the financial crisis, which began at the end of 2008 and has continued in the current period, the credit risk intensifies. The policy for control of contractual relationships applied by the Group is of significant importance for overcoming the risk of non-collectability of receivables. It is a policy of the Group to offer deferred payments (sales on credit) only to clients with a long-lasting history of trade cooperation with the Group, as well as that are in a good financial position and has not breached the terms of the credit. To all other clients sales are made against a preliminary (partial or full) payment, payment on the transaction date and/or letter of credit. The collectability and concentration of receivables are monitored currently at the level of both the companies and Bulgartabac – Holding AD, in accordance with the adopted policies of the companies of Bulgartabac Group. For the purpose, the open positions are reviewed on a daily basis by clients, as also of the proceeds received, by conducting an analysis of the unpaid amounts and the status of the clients.

In order to control the risk, the companies monitor whether the newly occurred receivables are paid within the established deadlines. If there are unpaid old receivables, the payment is made in accordance with individual agreements with the debtors.

A significant amount of the Group’s receivables is secured. The status and quality of collateral received are monitored and controlled at a company level within the Group.

The sales of products (tobacco products) in the domestic market are performed by the Group through a network of distributors on the basis of concluded contracts. The Group maintains long-lasting relationships of trade cooperation with these clients and effectively manages its contractual relationships in order to achieve timely collection of its receivables.

The sales of products (tobacco products) in the foreign market are performed by the Group on the basis of concluded contracts, the payments being agreed in such a way as to limit at maximum the risk of non-collectability.

The biggest part of sales is made on the basis of payments in BGN, EUR and USD.

Liquidity risk

Liquidity risk is the adverse situation when the companies of Bulgartabac Group encounter difficulty in meeting unconditionally its obligations within their maturity. The liquidity management policy of the group companies is conservative maintaining a constant optimal liquid reserve of cash (own and borrowed) and a good capability for funding their business activities. In relation to the above, herein below is given a maturity analysis of financial assets and liabilities according to their structure at the end of the reporting period.

Currently, the maturity and timely payment are monitored and controlled at two levels, by the parent company and by the respective units of the group companies, through maintaining day-to-day information for the available cash and analyzing the forthcoming payments. The group companies monitor and control also the actual and forecasted cash flows by periods ahead and match the maturity profiles of assets and liabilities.

The free cash of the Group is invested mostly in short-term deposits with commercial banks (up to 3 months). Investments are made at the best possible interest rates, whereas the need to diversify the risk of concentration of cash resources in separate banks is taken into consideration as well.

Maturity analysis

The Group's non-derivative financial assets and liabilities at the end of the reporting period are presented below. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the receivable and respectively the payable become due for payment. The amounts include principal and interest.

The Group's assets and liabilities, analyzed by remaining terms from the end of the reporting period, are as follows:

31 March 2011	**on demand**	**within 3 months**	**3-6 months**	**6-12 months**	**1-2 year**	**2-5 years**	**over 5 years**	**With no maturity**	**Total:**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Financial assets									
Available-for-sale investments	-	-	-	-	-	-	-	320	**320**
Other non-current assets	-	-	-	-	47	2	533	-	**582**
Receivables from clients	-	20,552	384	165	-	-	-	-	**21,101**
Cash and cash equivalents	56,573	94,997	200	155	-	-	-	279	**152,204**
Other current assets	-	528	1	5	-	103	-	78	**715**
Total financial assets	**56,573**	**116,077**	**585**	**325**	**47**	**105**	**533**	**677**	**174,922**

31 March 2011	**on demand**	**within 3 months**	**3-6 months**	**6-12 months**	**1-2 year**	**2-5 years**	**over 5 years**	**With no maturity**	**Total:**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Financial liabilities									
Long-term bank loans	-	70	66	118	10,180	2,315	-	-	**12,749**
Payables to suppliers	-	25,124	-	-	-	-	-	12	**25,136**
Dividend payables	-	378	-	-	-	-	-	-	**378**
Short-term bank loans	-	1,400	5,226	219	-	-	-	-	**6,845**
Short-term portion of long-term bank loans	-	397	402	5,301	-	-	-	-	**6,100**
Other current liabilities	-	94	-	4	-	-	-	41	**139**
Total financial liabilities	**-**	**27,463**	**5,694**	**5,642**	**10,180**	**2,315**	**-**	**53**	**51,347**

31 December 2010	**on demand**	**within 3 months**	**3-6 months**	**6-12 months**	**1-2 year**	**2-5 years**	**over 5 years**	**With no maturity**	**Total:**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Financial assets									
Available-for-sale investments	-	-	-	-	-	-	-	320	**320**
Other non-current assets	-	-	-	-	82	3	571	-	**656**
Receivables from clients	-	18,517	384	4,012	-	-	-	-	**22,913**
Cash and cash equivalents	134,464	48,611	-	200	198	-	-	278	**183,751**
Other current assets	-	70	1	5	-	101	-	72	**249**
Total financial assets	**134,464**	**67,198**	**385**	**4,217**	**280**	**104**	**571**	**670**	**207,889**

31 December 2010									
Financial liabilities									
Long-term bank loans	-	70	66	119	4,818	2,611	-	-	**7,684**
Payables to suppliers	-	35,165	483	20	-	-	-	12	**35,680**
Dividend payables	-	385	-	-	-	-	-	-	**385**
Short-term bank loans	-	109	1,402	5,296	-	-	-	-	**6,807**
Short-term portion of long-term bank loans	-	332	324	3,671	-	-	-	-	**4,327**
Other current liabilities	-	61	-	-	-	-	-	41	**102**
Total financial liabilities	**-**	**36,122**	**2,275**	**9,106**	**4,818**	**2,611**	**-**	**53**	**54,985**

Capital risk management

The capital management objectives of the Group are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital – at two levels, at the level of the individual group company (incl. the parent company), and at the level of the Group (the consolidated equity).

The Group currently monitors the availability and structure of its capital based on gearing ratios. It is a characteristic feature that the Group traditionally funds its activities from its own generated profits and by maintaining a certain level of trade and other short-term liabilities, bank loans and payables under finance leases. The gearing ratios are as follows:

Ratios	***31.03.2011***	***31.12.2010***
Equity / Borrowings	2.14	2.00
Bank loans and finance lease / Borrowings	0.14	0.09
Cash and cash equivalents / Borrowings	0.87	0.98

Fair values

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent, willing and knowledgeable parties. The Group's policy is to disclose in its financial statements mostly the fair value of these assets and liabilities for which market quotations are available. The fair value of financial instruments, which are not traded in active markets, is determined through valuation methods based on various valuation techniques and management assumptions made in accordance with the market circumstances as at the end of the reporting period.

The fair value concept presumes realization of the financial instruments through sales. However, in most cases especially with regard to trade receivables and payables as well as provided loans and deposits, the Group expects to realize these financial assets also through their total refund or respectively, settlement over time. Therefore, they are presented at their amortised cost which is accepted as being close to their fair value.

The main part of the financial assets and liabilities are either short-term in their nature (trade receivables and payables, short-term loans) or are presented in the balance sheet at market value (deposits placed with banks) and therefore, their fair value is almost equal to their carrying amount.

The available-for-sale investments, for which there is no market or objective conditions for a reliable fair value measurement, form an exception to this rule. Therefore, they are presented at acquisition price (cost), which could be accepted conservatively as not materially different from their fair value.

As far as no sufficient market experience, stability and liquidity exist with regard to purchases and sales of certain financial assets and liabilities, still no adequate and reliable quotes of market prices are available thereof. The Group's management has judged that the estimates of the financial assets and liabilities presented in the balance sheet are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances.

8. COMMITMENTS AND CONTINGENCIES

Operating lease

Operating lease liabilities – the Group as a lessee

At 31 March some of the group companies are parties to operating lease agreements (cancellable) as a lessee:

- ***Bulgartabac – Holding AD***

31.03.2011	*2010*
Rented motor vehicles for the Group's activities – term of the rental agreement up to 3 years as from 26 October 2009. It may be terminated by means of a one-month advance notice. The monthly rent is determined depending on the number and makes of the rented motor vehicles.	Rented motor vehicles for the Group's activities – term of the rental agreement up to 3 years as from 26 October 2009. It may be terminated by means of a one-month advance notice. The monthly rent is determined depending on the number and makes of the rented motor vehicles.
A rented storage area in Sofia – term of the rental agreement of 1 year as from 1 January 2011. It may be terminated by means of a one-month advance notice.	A rented storage area in Sofia – term of the rental agreement of 1 year as from 1 January 2011. It may be terminated by means of a one-month advance notice.
A rented storage area in Varna – term of the rental agreement of 1 year as from 17 June 2010. It may be terminated by means of a one-month advance notice.	A rented storage area in Varna – term of the rental agreement of 1 year as from 17 June 2010. It may be terminated by means of a one-month advance notice.

- ***Asenovgrad Tabac AD***

31.03.2011	*2010*
The company concluded a contract for rent of buildings and terrains owned by the Regional Cooperative Union – Plovdiv. The term of the contract is one year and is renewed every year.	The company concluded a contract for rent of buildings and terrains owned by the Regional Cooperative Union – Plovdiv. The term of the contract is one year and is renewed every year.

• Sofia BT AD

31.03.2011	*2010*
Rent of an administrative building – term of the contract 5 years as from 1 February 2008.	Rent of an administrative building – term of the contract 5 years as from 1 February 2008.
A social site rented – term of the contract of up to 1 year as of 5 February 2010. Renewed by an annex dated 25 February 2011 for a term of up to 1 year.	A social site rented – term of the contract of up to 1 year as of 5 February 2010. Renewed by an annex dated 25 February 2010 for a term of up to 1 year.
A social site rented – term of the contract of up to 1 year as of 5 February 2010. Renewed by an annex dated 25 February 2011 for a term of up to 1 year.	A social site rented – term of the contract of up to 1 year as of 5 February 2010. Renewed by an annex dated 25 February 2010 for a term of up to 1 year.
Leased cars for the company's activity – term of the lease contract of up to 31 July 2011.	Leased cars for the company's activity – term of the lease contract of up to up to 31 July 2011.
Rent of a cellophane wrapping machine for cigarette production 100 mm soft pack. Term of the contract of 1 year as of 26 May 2010.	Rent of a cellophane wrapping machine for cigarette production 100 mm soft pack. Term of the contract of 1 year as of 26 May 2010.
Rent of warehouses – term of the contract of up to 1 year as of 1 April 2010. Term for termination of the contract – the expiry of the term. Renewed by an annex dated 1 April 2011 for a term of 1 year.	Rent of warehouses – term of the contract of up to 1 year as of 1 April 2010. Term for termination of the contract – the expiry of the term.

• Bulgartabac – Trading AD

31.03.2011	*2010*
A warehouse rented - term of the contract of up to 1 year as of 29 September 2010.	A warehouse rented - term of the contract of up to 1 year as of 29 September 2010.
A warehouse rented - term of the contract of up to 1 year as of 31 March 2011.	A warehouse rented - term of the contract of up to 1 year as of 1 October 2010.
A shop rented - term of the contract of up to 1 year as of 23 November 2010.	A shop rented - term of the contract of up to 1 year as of 23 November 2010.

The future minimum rentals under operating leases (cancellable) are as follows:

	31.03.2011 *BGN '000*	*31.12.2010* *BGN '000*
Within 1 year	1,179	1,152
From 1 to 5 years	804	1,054
Total	**1,983**	**2,206**

Receivables under operating lease – the Group as a lessor

At 31 March the most significant contracts for lease out of property owned by group companies under operating leases (cancellable) are as follows:

• ***Bulgartabac - Holding AD***

31.03.2011	*2010*
Part of the administrative building - for an office of a bank - total leased area of 300 sq.m. with a term of the contract of up to 5 years as from 13 January 2007. It may be terminated by a 6-month advance notice.	Part of the administrative building - for an office of a bank - total leased area of 300 sq.m. with a term of the contract of up to 5 years as from 13 January 2007. It may be terminated by a 6-month advance notice.
Garage cells in the town of Asenovgrad – a total rented area of 288 sq.m. with term of the contracts of 1 month. Condition for termination – by a 5-day written advance notice.	Garage cells in the town of Asenovgrad – a total rented area of 288 sq.m. with terms of the contracts of 1 month. Condition for termination – by 5-day/one-month written advance notice.
Part of tobacco warehouses in the town of Asenovgrad – a total leased out area of 1,200 sq.m. Condition for termination - by a 1 month written notice.	Part of tobacco warehouses in the town of Asenovgrad - a total leased out area of 1,200 sq.m. Condition for termination - by a 1 month written notice.

The properties have been treated as used in the operations.

• ***Blagoevgrad BT AD***

31.03.2011	*2010*
Warehouse premises and parts of buildings with a total leased out rental area of 536 sq. m. – term of the rental contracts – up to 1 year.	Warehouse premises and parts of buildings with a total leased out rental area of 536 sq. m. – term of the rental contracts – up to 1 year.
Part of a building with a total leased out rental area of 1,650 sq. m. - term of the rental contracts – up to 1 year as of 1 April 2011.	Part of a building with a total leased out rental area of 1,650 sq. m. - term of the rental contracts – up to 1 year as of 1 May 2010.
Part of a building leased out as a bank office with a total leased out rental area of 111 sq. m. – term of the contract – up to 1 year as of 1 April 2011.	Part of a building leased out as a bank office with a total leased out rental area of 111 sq. m. – term of the contract – up to 1 year as of 16 March 2010.

The properties have been treated as used in the operations.

• ***Haskovo Tabac AD (in liquidation)***

31.03.2011	*2010*
Part of a warehouse with a total leased out rented area of 2,400 sq.m. – term of the contract of up to 6 months.	Part of a warehouse with a total leased out rented area of 2,400 sq.m. – term of the contract of up to 6 months.

The properties have been treated as used in the operations.

• ***Sofia BT AD***

31.03.2011	*2010*
Part of a building leased out as a bank office with a total leased out rental area of 100 sq. m. and term of the contract of up to 3 years as of 4 February 2010. The contract may be terminated by mutual consent or by a three-month advance notice.	Part of a building leased out as a bank office with a total leased out rental area of 100 sq. m. and term of the contract of up to 3 years as of 4 February 2010. The contract may be terminated by mutual consent or by a three-month advance notice.
Catering establishments – canteen and cafeteria together with the equipment and furniture. Term of the contract of 2 years as from 13 October 2009. Conditions for termination – upon the expiry of the term or by a three-month advance notice.	Catering establishments – canteen and cafeteria together with the equipment and furniture. Term of the contract of 2 years as from 13 October 2009. Conditions for termination – upon the expiry of the term or by a three-month advance notice.
Part of a roof of a building for mounting and using telecommunication installations. Term of the contract of 5 years as of 07 July 2008. Conditions for termination – upon the expiry of the term, by a three-month advance notice by the lessor or by a 1 month advance notice by the lessee.	Part of a roof of a building for mounting and using telecommunication installations. Term of the contract of 5 years as of 07 July 2008. Conditions for termination – upon the expiry of the term, by a three-month advance notice by the lessor or by a 1 month advance notice by the lessee.

The properties have been treated as used in the operations.

• Shumen Tabac AD

31.03.2011	*2010*
Auto mechanic workshop – total leased out rented area of 100 sq. m. and term of the contract of up to 1 year.	Auto mechanic workshop – total leased out rented area of 100 sq. m. and term of the contract of up to 1 year.
Curing barns – total leased out rented area of 450 sq. m. and terms of the contracts of up to 1 year.	Curing barns – total leased out rented area of 450 sq. m. and terms of the contracts of up to 1 year.
Warehouses with a total rented area of 3,584 sq. m. and terms of the contracts of up to 1 year.	Warehouses with a total rented area of 3,584 sq. m. and terms of the contracts of up to 1 year.
Premises with a total rented area of 190 sq. m. and term of the contracts of up to 1 year.	Premises with a total rented area of 190 sq. m. and term of the contracts of up to 1 year.

The properties have been treated as used in the operations.

The future minimum lease receivables under operating leases (cancellable) are as follows:

	31.03.2011	*31.12.2010*
	BGN '000	*BGN '000*
Within 1 year	660	812
From 1 to 5 years	89	104
	749	**916**

Scheduled and signed contracts for large supplies and construction of tangible assets

Out of the total amount of BGN 54,481 thousand scheduled for investments to be made in 2011, at the date of approval of these financial statements for issue the amount of BGN 30,839 thousand has been paid:

Blagoevgrad BT AD

Investments scheduled for 2011 : BGN 28,428 thousand

Amounts paid: BGN 12,318 thousand

Sofia BT AD

Investments scheduled for 2011 : BGN 25,310 thousand

Amounts paid: BGN 18,405 thousand

Bulgartabac – Trading EAD

Investments scheduled for 2011 : BGN 623 thousand

Amounts paid: BGN 33 thousand

Pleven BT AD

Investments scheduled for 2011 : BGN 120 thousand

Amounts paid: BGN 83 thousand

Bank guarantees

At 31 March 2011, the bank guarantees issued by group companies amount to BGN 60,355 thousand as follows:

Company	Bank – issuer	**Guarantee amount BGN '000**	In favour of
Blagoevgrad BT AD	Corporate Commercial Bank AD	30,000	Customs Agency
Blagoevgrad BT AD	ING Bank	200	Customs Agency
Blagoevgrad BT AD	ING Bank	155	Rila Gas EAD
Sofia BT AD	Citibank N.A.	30,000	Customs Agency
		60,355	

At 31 March 2011, bank guarantees amounting to BGN 60,000 thousand issued to group companies relate to securing excise duty liabilities; a bank guarantee amounting to BGN 200 thousand is issued to secure principle and interest in connection with an appealed-against tax assessment deed, and a bank guarantee amounting to BGN 155 thousand is issued to secure payments of amounts due under a contract for natural gas supply.

Collaterals on bank guarantees issued include pledge of receivables on current accounts, deposits, and promissory notes.

At 31 March 2011, the bank guarantees provided to group companies by their contractors amounted to BGN 21,098 thousand, as follows:

Company	**Bank-issuer**	**Guarantee amount BGN '000**	**Contractor**
Blagoevgrad BT AD	Societe Generale Expressbank AD	3,500	Tabac Trading Partner OOD
Blagoevgrad BT AD	Unicredit Milano	3,051	G.D. SPA, Italy
Blagoevgrad BT AD	Unicredit Milano	2,034	G.D. SPA, Italy
Blagoevgrad BT AD	Societe Generale Expressbank AD	1,400	Tabcom OOD
Blagoevgrad BT AD	DSK Bank EAD	1,000	Simeon – 2 OOD
Blagoevgrad BT AD	Unicredit Milano	301	G.D. SPA, Italy
Sofia BT AD	Unicredit Milano	5,735	G.D. SPA, Italy
Sofia BT AD	Societe Generale Expressbank AD	1,500	Tabac Trading Partner OOD
Sofia BT AD	Municipal Bank AD	800	Speedstar EOOD
Sofia BT AD	Societe Generale Expressbank AD	600	Tabcom OOD
Sofia BT AD	DSK Bank EAD	600	Delivery Ruse - 2 AD
Sofia BT AD	Unicredit Milano	577	Comas Tobacco Machinery, Italy
		21,098	

More important court, arbitration or administrative cases of significant interest to which the groups companies are parties

Bulgartabac - Holding AD

1. Cases initiated against Bulgartabac - Holding AD

A civil case was brought to Sofia City Court against Bulgartabac - Holding AD by an individual in relation to a dispute concerning intellectual property. The case is pending.

A case was brought to Asenovgrad Regional Court against Bulgartabac - Holding AD by an individual in relation to a property dispute. The case is pending.

In Bulgaria, before the Supreme Administrative Court, at an appeal of the Partnership "Equal rights for the people laid off by Plovdiv Yurii Gagarin BT AD" (at present, "Yurii Gagarin AD") a case was initiated against the refusal of the Discrimination Commission to establish a record. Bulgartabac - Holding AD in an interest party to the case. The Supreme Administrative Court repealed the decision of the Discrimination Commission and returned the case for a new investigation. The decision was appealed against by "Yurii Gagarin AD" Plovdiv. The case is pending.

In Bulgaria, a case was brought by Buhler and Berger Bulgaria EOOD to the Sofia Regional Court against Bulgartabac - Holding AD for the payment of outstanding amounts on invoices issued in relation to a long-term loan contract, together with the statutory interest due on the amount claimed. The case is pending.

2. Proceedings related to rights of trademarks

The company is a party to disputes for rights of trademarks abroad. Part of the cases are initiated by Bulgartabac – Holding AD for deletion of rights of trademarks registered by foreign persons, for which Bulgartabac – Holding AD has either made the registration already or which are not used by the persons that have made their initial registration. The constituted cases under appeals by and against Bulgartabac-Holding AD related to rights of trademarks are as follows:

In Turkey, 2 cases were brought to the Mersin Regional Court against European Tobacco Inc. for the annulment of their trademarks Prestige, Prestage. The cases are pending.

In Turkey, 2 cases were brought to the Mersin Regional Court against European Tobacco Inc. for the annulment of their trademarks President. The cases are pending.

In Turkey, before the Court for Intellectual Property – Ankara, at an appeal of Bulgartabac - Holding AD a case was initiated against the Patent Authority – Turkey. The case is for the refusal to register the MM trademark. The case is pending.

In Turkey, before the Supreme Court – Ankara cases were initiated at an appeal of the Patent Authority against decisions of the Court for Intellectual Property – Ankara claiming the rejection of decisions for the registration of the trademarks Privace Prestige and Protocol Prestige in relation to the registration of the trademark Prestige of Bulgartabac - Holding AD. The cases are pending.

In Turkey, against the Patent Authority, in relation to the revocation of the registration of the E♥A slims of Bulgartabac - Holding AD. The case is pending to the Court for Intellectual Property - Ankara. The case is pending.

In Turkey, at a request of European Tobacco Inc. - Turkey a case was brought to the Mersin Civil Court for cancellation of registration of 5 trademarks Prestige of Bulgartabac - Holding AD. The case is pending.

In Turkey, at the request of Bulgartabac - Holding AD 3 cases were brought to the Intellectual and Industrial Rights Court – Ankara against the Patent Agency of Turkey and European Tobacco. The subject-matter of the cases is the annulment of 3 trademarks President of European Tobacco. The cases are pending.

In Greece, at a request of Philip Morris Products a case was brought to the Administrative Court of Athens for the trademark E♥A Rose, against Bulgartabac - Holding AD and the Patent Agency. The case is pending.

In Greece, 2 cases were brought against the Patent Agency for the refusal of registration of the trademarks Bulgartabac and Femina of Bulgartabac - Holding AD. The proceedings are to be heard by the Administrative Court of Athens. The cases are pending.

In Bulgaria, a case was initiated on the grounds of an appeal of „Alpi” OOD against a decision of the Patent Authority for deletion of TM Victoria. The decision is in favour of Bulgartabac - Holding AD. The decision of the Sofia Administrative Court was appealed against to the Supreme Administrative Court. The case is pending.

In Austria, before the Supreme Regional Court – Vienna a case was started in relation to the claim of Philip Morris Products rejected by the Trade Court in Vienna, for prohibiting the sales of the mark E♥A slims of Bulgartabac-Holding AD in the territory of Austria. The decision was issued in favour of Bulgartabac - Holding AD and had been appealed by Philip Morris Products to the Trade Court of second instance in Vienna. The appeal was honoured. Bulgartabac - Holding AD filed an appeal to the Supreme Court of Austria. The case is pending.

In Poland, against the Patent Authority of the country in relation to the revocation of the registration of the trademark Prestige slims of Bulgartabac - Holding AD. The case is brought before the Administrative Court in Warsaw. The case is pending.

In Lithuania, a case was brought to the District Court of Vilnius on the grounds of an appeal filed by Philip Morris against the registration of the trademark E♥A slims of Bulgartabac - Holding AD in Lithuania. Bulgartabac - Holding AD was the defendant on the case. The Patent Authority of Lithuania was attached as an interested party. The decision was in favour of Bulgartabac - Holding AD. The decision was appealed against by Philip Morris to the Appellate Court of Vilnius. The case is pending.

In Bulgaria, against „Fraport Twin Star Airport Management” AD and „Plovdiv Airport” EAD for violating the rights of trademarks owned by Bulgartabac - Holding AD. The claim was honoured in favour of Bulgartabac - Holding AD. The decision was appealed by „Fraport Twin Star Airport Management” AD in its part dealing with the expenses. The appeal of „Fraport Twin Star Airport Management” AD was left with no motion. The decision of Sofia City Court was appealed against by „Fraport Twin Star Airport Management” AD to the Sofia Appellate Court. The case was closed in favour of Bulgartabac - Holding AD.

In Romania, at an appeal of Bulgartabac - Holding AD against a decision of the Patent Agency to refuse the registration of the trademark E♥A slims in Romania, a case was brought to the Appellate Court of Bucharest. The case is pending.

In Argentina, at a request of Bulgartabac - Holding AD a case was brought to the National Federal Court on Civil and Commercial Cases of First Instance against the Patent Agency and Philip Morris in relation to the refusal of registration of the trademark E♥A slims. The case is pending.

In Greece, at a request of Bulgartabac - Holding AD two cases were brought to the Administrative Court of Athens for the obliteration of the registration of trademark Victory in Greece of Philip Morris

Products S.A. – Switzerland by reason of being unused. The decision is in favour of Bulgartabac - Holding AD. A term for its appeal is ongoing. The cases are pending.

In Germany, at a request of Societe National de Kemics to the Federal Patent Court against the Patent Agency for the obliteration of the registration of the trademark Orient Express owned by Bulgartabac - Holding AD. Bulgartabac - Holding AD is an interest party to the case. The case is pending.

At a request of Philip Morris Products S.A., a case was brought to the Supreme Court of Israel against the decision of the Patent Agency – Israel by virtue of which the objection of Philip Morris Products S.A against the request of Bulgartabac - Holding AD for registration of the trademark E♥A slims in Israel was rejected. The case is pending.

In Portugal, a case was brought to the Commercial Court of Lisbon at an appeal of Cita Tabacos de Canarias – S.L. against the decision of the Portuguese Patent Agency for registration of the trademark Victory slims of Bulgartabac - Holding AD. The case is pending.

In Portugal, a case was brought to the Commercial Court of Lisbon at an appeal of Empresa Madeirence de Tabacos S.A. against the decision of the Portuguese Patent Agency for registration of the trademark Victory slims of Bulgartabac - Holding AD. The case is pending.

In Bulgaria, on the grounds of an appeal of the company “Reemtsma” GmbH, Germany, against a decision of the Patent Agency for deletion of the international registration of trademark No. 706539 -TIR. The decision was in favour of Bulgartabac - Holding AD and was appealed against to the Supreme Administrative Court by “Reemtsma” GmbH, Germany, and ITC – Iran. The case is pending.

In Bulgaria, before the Sofia City Court, on the grounds of an appeal of the company “Japan Tobacco” Inc., Japan, 2 cases were initiated against decisions of the Patent Authority for revocation of the registration of trademarks No.No. 16132 - Mild Seven, 11820 - Seven star. The appeal was honoured. Bulgartabac - Holding AD has appealed the decision to the Supreme Administrative Court. The cases are pending.

3. Cases initiated by Bulgartabac - Holding AD

Executive cases have also been initiated for collecting of receivables from other persons totalling BGN 155 thousand. The cases are pending.

Two cases were brought to the Sofia City Court against Board – 17 AD for infringement of intellectual property rights over the trademark Victory of Bulgartabac - Holding AD. The proceeding on one of the cases was suspended until the closure with an effective decision of the dispute on the other case. The cases are pending.

In 2008, a case was initiated before the Sofia Administrative Court as a result of the appeal filed by Bulgartabac - Holding AD against a Tax Assessment Deed from June 2008. The Tax Assessment Deed was appealed in its part of the additionally assessed liabilities under VAT Act /repealed/ - a non-recognised input VAT amounting to BGN 145 thousand – principal, BGN 26 thousand – interest, and in the part of the additionally assessed corporate income tax under CITA /repealed/ for 2003, 2005 and 2006 amounting to BGN 2 ,392 thousand – principle and BGN 416 thousand – interest. By a decision of the Sofia Administrative Court dated 1 December 2010, the appeal of Bulgartabac - Holding AD was honoured partially, in its part dealing with the additionally assessed liabilities under VATA – a non-recognised input VAT in the amount of BGN 145 thousand – principal, BGN 26 thousand – interest and additionally assessed corporate income tax under CITA for 2003, 2005 and 2006 amounting to BGN 974 thousand – principle and the associated portion of interest thereon. The other part of the appeal was rejected. The decision was appealed against to the Supreme Court of Cassation. The case is pending.

In 2009, a case was initiated before the Sofia Administrative Court as a result of the appeal filed by Bulgartabac - Holding AD against Tax Assessment Deed from April 2009. The Tax Assessment Deed was appealed in its part of the additionally assessed corporate income tax under CITA for 2004 amounting to BGN 1,251 thousand – principle. By a decision of the Sofia Administrative Court dated 21 February 2011, the appeal of Bulgartabac - Holding AD was honoured in full. The Director of Appeal and Enforcement Management Directorate – Sofia city was convicted to pay to Bulgartabac - Holding AD the amount of BGN 33 thousand being the costs incurred in relation to the case. The decision was appealed against to the Supreme Administrative Court. The case is pending.

Before the Supreme Court of Cassation a case was initiated on the grounds of an appeal filed by Bulgartabac - Holding AD in relation to distribution for use of a mutual property - a building located in Burgas, 7 Graf Ignatiev Street. The case was returned for new hearing to the Burgas District Court. At the date of preparation of these financial statements the case is pending.

Before the Yambol District Court a case was initiated against Topolovgrad BT AD on the grounds of a claim for the actual execution of obligations of Topolovgrad– BT AD for dividends and other payments. The request of Bulgartabac - Holding AD was rejected. The decision was appealed against the Appellate Court of Burgas. The appeal of Bulgartabac - Holding AD was rejected. The decision of the Appellate Court of Burgas was appealed against the Supreme Court of Cassation. The case is pending.

Before the Arbitration Court at the BCCI a case was initiated against „Trakiya Tabac” EOOD on the grounds of a claim for the actual execution of contractual obligations. The case is pending.

A case was initiated before the Commercial Court of the USA, the South Region of New York by Bulgartabac-Holding AD against the Republic of Iraq, the State Tobacco Group, the Central Bank of Iraq, and Rafidan bank. The case was initiated in relation to trade receivables of Bulgartabac - Holding AD under contracts for export of cigarettes and spare parts dated 1987. The claim was rejected due to the expired period of limitation. The decision was appealed against to the Appellate Court of New York. The case is pending.

4. Cases whereto the Supervisory Board of Bulgartabac - Holding AD is a party

A case was brought to the Supreme Administrative Court at an appeal of CIDITAB EOOD against the cessation determination of the Sofia Administrative Court initiated at the request of CIDITAB EOOD against the omission of the Supervisory Board of Bulgartabac - Holding AD to perform an obligation under paragraph 5 of the Additional Provisions of the Privatisation and Post Privatisation Control Act. A request was made for cessation of the case due to obliteration of the Supervisory Board of Bulgartabac - Holding AD as a body of the company. The case was terminated with respect to the Supervisory Board of Bulgartabac - Holding AD.

At an appeal of Bulgartabac - Holding AD, a case was brought to the Sofia City Court against a decision of the Sofia Regional Court, by virtue of which the claim of Bulgartabac - Holding AD against CIDITAB EOOD for the establishment of the voidness of a decision of the Supreme Administrative Court was rejected, and thus, the Supervisory Board of Bulgartabac - Holding AD was recognized as an administrative body. The appeal of Bulgartabac - Holding AD was rejected. A cassation appeal was filed against the decision of the Sofia City Court.

Asenovgrad Tabac AD

The company initiated cases in relation to uncollected receivables against 3 individuals in the total amount of BGN 24 thousand.

The company is a claimant to an administrative case brought to the Sofia Administrative Court for appealing the tax assessment deed of TD “Large Taxpayers and Insurers” confirmed by a Decision of the Director of AEM – Sofia at the Headquarters Office of NRA. The first hearing was held on 1 February 2011. The case was postponed and an expert valuation was assigned.

Blagoevgrad BT AD

The company brought a case to the Sofia Administrative Court against a tax assessment decision dated 2 July 2010 of the Director of Customs Agency.

A case was brought to the Sofia Administrative Court against the implicit denial of the Director of Customs Agency to discontinue the enforcement of a tax assessment decision dated 2 July 2010. The case closed in favour of the Director of Customs Agency.

Five cases were brought to the Blagoevgrad Regional Court against the Head of the South West Customs Office for appealing penal decrees.

Administrative cases whereto Blagoevgrad BT AD is a party

On an administrative case whereto Blagoevgrad BT AD was a party concerning buildings, the Blagoevgrad District Court recognized the right of the claimants to receive compensation in the form of shares in the company’s capital. This decision was made void by a decision of the Supreme Administrative Court and the case was returned to the Ministry of Economy.

Pleven BT AD

The company is a claimant on a commercial case for insurance indemnity initiated against Generali Insurance AD before the Sofia City Court for the amount of BGN 61 thousand.

Pleven BT AD is a claimant on a civil case initiated before the Pleven Regional Court for the amount of BGN 8 thousand.

Sofia BT AD

Under an executive case dated 2007 of a private judicial enforcer against the debtor Joro Mash GG OOD, town of Asenovgrad, for collection of a receivable of the company amounting to BGN 4 thousand the enforcement actions continue. No funds have been received so far.

An administrative case was initiated by Sofia BT AD for the revocation of additionally charged excise duties and interest thereon under a tax assessment decision of Customs Agency amounting to BGN 41 thousand.

Sofia BT AD has started 3 cases against Customs Agency in relation to penal decrees for violations in applying the Excise Duties and Tax Warehouses Act in the total amount of BGN 40 thousand.

Haskovo Tabac AD (in liquidation)

Three civil cases (in the total amount of BGN 10 thousand) and 19 labour executive cases (in the total amount of BGN 33 thousand) were initiated against the company. The cases related to labour disputes concerning mainly remunerations for downtime in connection with the policy applied for payment of lower remunerations during production downtime and compensations for professional diseases.

The company is a claimant to two executive cases in the total amount of BGN 8 thousand.

The company is a claimant to a case for unpaid rent against Ayax 33 Burgas. The amount of the claim is BGN 4 thousand.

An appeal was filed by the company to the Burgas District Court against the Nessebar Municipality for illegal disposal of land owned by Haskovo Tabac AD. The case was left with no motion.

Shumen Tabac AD

Shumen Tabac AD brought an executive case against Correct Service OOD for unpaid rent under a contract.

Liabilities amounting to BGN 645 thousand (31 December 2010: BGN 645 thousand) have been included in the consolidated financial statements in relation to the cases disclosed above. As regards the remaining liabilities, the Group's management and management of the respective companies have judged that there are no grounds and/or conditions for recognition of additional provisions in the statement of financial position.

Other commitments

At 31 March 2011 assets not owned by the Group are safeguarded therein, as follows:

- tobacco – None (31 December 2010: 10 t);
- other inventories amounting to BGN 3 thousand (31 December 2010: BGN 1 thousand).

9. Other disclosures

New procedure for the sale/privatisation of Bulgartabac – Holding AD

By a decision of the National Assembly of the Republic of Bulgaria dated 17 December 2008 (promulgated in the State Gazette (SG), issue 109/2008) the Strategy for the privatization of Bulgartabac-Holding AD, adopted by a decision of the National Assembly dated 10 December 2003, was revoked.

By virtue of §99 of the Transitional and Final Provisions (TFP) of the State Budget Act of the Republic of Bulgaria for 2009 (promulgated in the SG, issue 110/2008) the Privatisation and Post-privatisation Control Act was amended, whereby i.1 of the List – Note No. 2 to Art. 35a., para. 1 of the Privatisation and Post-privatisation Control Act was revoked (Bulgartabac-Holding AD was taken out of the List of commercial companies with more than 50 per cent of State interest in their capital which are important to the Bulgaria's national security).

By a letter dated 18 February 2009, the Privatisation Agency informed Bulgartabac - Holding AD that on the grounds of Art. 4, para. 1 and Art. 28, para. 1 and para. 2 of the Privatisation and Post-privatisation Control Act and a Decision No. 1490 dated 17 February 2009 of the Privatisation Agency Bulgartabac - Holding AD was forbidden to perform disposal transactions with long-term assets of the company, to conclude contracts for the acquisition of share participations, rental contracts, contracts for joint operations, loan contracts, contracts for securing receivables, as well as to undertake any bill-of-exchange obligations, except with the permission of the Privatisation Agency. The decision No. 1490 dated 17 February 2009 of the Privatisation Agency was promulgated in the State Gazette, issue 17 of 06 March 2009.

By a letter of the Privatisation Agency dated 23 March 2009, Bulgartabac - Holding AD was required to notify in advance the Agency of all transactions outside the scope of application of Art. 28 of the Privatisation and Post-privatisation Control Act that would bind Bulgartabac - Holding AD or its subsidiaries for a term longer than one year. The Privatisation Agency should be notified in advance also of any transactions concluded by the subsidiaries, namely of any disposal transactions involving fixed tangible assets of the company, signing of contracts for the acquisition of shares, rental agreements, contracts for joint activities, loan contracts, contracts for securing receivables, as well as for assuming obligations related to bills of exchange.

As a result of the open tender carried out by the Privatisation and Post-privatisation Agency (the Agency) at the beginning of 2010, Citigroup Global Markets Limited was elected to serve as a consultant in the privatisation of Bulgartabac - Holding AD and a contract assigning the preparatory activities in relation to the privatisation of a package of shares owned by the Bulgarian state in the capital of Bulgartabac - Holding AD was signed. The consultant was assigned the task to provide full-scope consulting services and assistance to the Agency in relation to the preparation and realisation of the privatisation transaction for Bulgartabac - Holding AD, in accordance with the specified method of privatisation and the effective law. The contract entered into force on 8 September 2010 (Bulgartabac - Holding AD was notified thereof by a letter dated 14 September 2010).

In pursuance of the contract, on 18 November 2010 the consultant submitted to the Privatisation and Post-privatisation Agency its information memorandum, legal analysis and privatisation valuation of Bulgartabac - Holding AD.

By a letter dated 23 November 2010, the Agency informed the subsidiaries of Bulgartabac Group that they were forbidden to perform any translations falling within the scope of application of Art. 28, para. 1 of the Privatisation and Post-privatisation Control Act, except with the preliminary permission of the Privatisation Agency. By a decision № 3219-П dated 18 April 2011 (promulgated in the State Gazette, issue 34 of 10 May 2011), the Privatisation and Post-privatisation Agency has determined the method for sale of 5, 881,380 shares being approximately 79.83 % of the capital of Bulgartabac-Holding AD, Sofia – a publicly announced tender to be held in one stage.

The decision specifies also the preliminary qualification requirements that shall be met by the interested parties – participants in the tender, as also the main procedural terms. Pursuant to this decision, the participants in the tender shall submit their bids by the 110 day as of the date of promulgation of the decision in the State Gazette.

Program for the restructuring of Bulgartabac Group

Asenovgrad Tabac AD and Shumen Tabac AD (restructured from cigarette factories to tobacco processing factories)

In 2005, a decision was taken for the sale of shares of Bulgartabac-Holding AD in the capital of Asenovgrad Tabac AD and Shumen Tabac AD to be completed after the issue concerning the future use and sale of tobacco manufacturing machinery is settled.

Pursuant to the above decision, if there is no interest towards the sale, the companies will be announced in liquidation, and respectively, in insolvency.

At present, the biggest part of tobacco manufacturing machinery, as well as a significant part of real estates owned by Asenovgrad Tabac AD, was sold.

At the date of issue of these financial statements, the privatisation procedure for Bulgartabac-Holding AD is ongoing and therefore, the procedures for selling the shares held by Bulgartabac-Holding AD in these companies were suspended.

The agenda of the forthcoming General Meeting of Shareholders of Asenovgrad Tabac AD, to be held on 21 June 2011, includes an item for the termination and announcement in liquidation of the company, the term for completing the liquidation being up to 1 (one) year, termination of the powers of the Board of Directors and election of a liquidator.

Liquidation and insolvency procedures of group companies

Haskovo Tabac AD (in liquidation)

The decision of the General Meeting for winding-up of the company and starting a liquidation procedure was entered with a decision of Haskovo District Court dated 31 March 2006. On 11 July 2006 the creditors were invited by a published invitation by liquidators to request their receivables within a three-month period as from that date. Encashment of company's property was forthcoming for their settlement. With a decision of the General Meeting of Shareholders, dated 9 May 2007, the initial financial statements and the balance sheet at the liquidation date were approved. Initially the deadline to effect the liquidation was 12 January 2008 and since then, it had been extended for a number of times.

The agenda of the forthcoming General Meeting of Shareholders of the company, to be held on 21 June 2011, includes an item for the extension of the term for completing the company’s liquidation by 6 (six) months as of 11 July 2011 – the date of expiry of the term set by a decision of the regular General Meeting of Shareholders held on 23 June 2010.

Dulovo Tabac AD (in insolvency)

By a decision No 32 dated 22 January 2010 issued in relation to a commercial case No 105/2009 in the inventory of the Silistra District Court, the following decisions were undertaken:

- the insolvency of „Dulovo Tabac” AD was announced, effective 17 November 2008;
- an insolvency proceeding was opened as regards the company;
- collateral is allowed in the form of pledge and interdiction imposed on the entire property of the company;
- the activity of the entity „Dulovo Tabac” AD was terminated;
- „Dulovo Tabac” AD was announced insolvent;

- the case proceedings were stopped.

The decision was appealed by the State Receivables Collection Agency but only in its part concerning the effective date of the company's insolvency and the revocation of this part only was claimed.

By a decision No 47 dated 28 April 2010 of the Varna Appellate Court, the initial date of insolvency of Dulovo Tabac AD was repealed and a new initial date of insolvency was set, namely 26 April 2002.

In January 2011, two appeals were filed for the re-initiation of proceedings – by the National Revenue Agency and CIDITAB EOOD. At present, a term for implementing the instructions of the court is ongoing with regard to the advance payment of costs related to the proceedings.

Sofia, 28 May 2011

Chief Accountant: *signature /illegible/*
(Diana Nikolova)
Seal of Bulgartabac Holding AD

Executive Director: *signature /illegible/*
(Ivan Bilarev)