

Interim Consolidated Financial Statements

of

Bulgartabac Group

for

the period from 1 January to 30 September

2011

prepared in accordance with
International Financial Reporting Standards



**CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2011**

	01.01. - 30.09.2011	01.01. - 30.09.2010
	BGN '000	BGN '000
Sales revenue	262 698	218 879
Cost of products and services sold	<u>(204 893)</u>	<u>(159 597)</u>
	57 805	59 282
Impairment of inventories	-	(238)
Cost of production below the normal capacity	<u>(3 827)</u>	<u>(2 106)</u>
Gross profit (margin)	53 978	56 938
Other operating income / (losses), net	2 300	(247)
Distribution and realisation expenses	(10 014)	(8 136)
Administrative expenses	(22 597)	(20 660)
Other operating expenses	<u>(12 008)</u>	<u>(10 372)</u>
Operating profit	11 659	17 523
Finance income	5 195	5 177
Finance costs	<u>(7 329)</u>	<u>(2 455)</u>
Operating profit after finance items	9 525	20 245
Expenses on stopped production activities in subsidiaries	<u>(162)</u>	<u>(173)</u>
Profit before income tax	9 363	20 072
Income tax expense	<u>(936)</u>	<u>(1 891)</u>
Net profit for the period	8 427	18 181
Attributable to :		
The owners of the equity of the parent company	7 244	14 859
Non-controlling interest	1 183	3 322

Sofia, 28 November 2011

*Executive Directors: signature /illegible/
(Ventsislav Cholakov)*

*signature /illegible/
(Angel Dimitrov)*

*Chief Accountant (preparer): signature /illegible/
(Diana Nikolova)*

Seal of Bulgartabac Holding AD

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2011**

	01.01. - 30.09.2011	01.01. - 30.09.2010
	BGN '000	BGN '000
Net profit for the period	<u>8 427</u>	<u>18 181</u>
Total comprehensive income	<u>8 427</u>	<u>18 181</u>
Attributable to :		
The owners of the equity of the parent company	7 244	14 859
Non-controlling interest	1 183	3 322

Sofia, 28 November 2011

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 2011

	30 September 2011	31 December 2010
	BGN '000	<i>audited</i> BGN '000
ASSETS		
Non-current assets		
Property, plant and equipment, incl.	228 309	212 350
1. Land	13 690	13 690
2. Buildings	63 692	65 669
3. Plant	104 939	100 313
4. Equipment	4 733	4 984
5. Motor vehicles	1 348	1 280
6. Fixtures & Fittings	1 505	1 372
7. TFA in progress	37 276	23 825
8. Other assets	1 126	1 217
Intangible assets	224	163
Investments available for sale	320	320
Deferred tax assets	285	460
Other non-current assets	1 143	1 218
	<u>230 281</u>	<u>214 511</u>
Current assets		
Inventories	127 986	132 351
Receivables from clients and suppliers, incl.	30 983	25 523
1. Receivables from clients	29 164	22 913
2. Advances to suppliers	1 819	2 610
Other current assets, incl.	8 583	4 003
1. Taxes refundable	5 863	3 073
2. Court and awarded receivables	469	194
3. Other receivables	1 211	308
4. Prepayments	1 040	428
Cash and cash equivalents	110 035	183 595
	<u>277 587</u>	<u>345 472</u>
TOTAL ASSETS	<u>507 868</u>	<u>559 983</u>
EQUITY AND LIABILITIES		
Capital attributable to the owners of the equity of the parent company		
Share capital	7 367	7 367
Reserves	108 624	106 815
Retained earnings	166 194	213 759
	<u>282 185</u>	<u>327 941</u>
Non-controlling interest	40 357	45 301
Total equity	<u>322 542</u>	<u>373 242</u>
LIABILITIES		
Non-current liabilities		
Long-term bank loans	14 624	6 782
Deferred tax liabilities	3 531	3 531
Retirement benefit obligations	17 190	16 838
	<u>35 345</u>	<u>27 151</u>
Current liabilities		
Payables to suppliers and clients	46 614	38 277
Short-term bank loans	1 300	6 486
Short-term portion of long-term bank loans	7 091	4 054
Tax liabilities	81 923	98 402
Payables to personnel	6 983	8 128
Payables to social security	1 911	1 907
Other current liabilities	4 159	2 336
	<u>149 981</u>	<u>159 590</u>
TOTAL LIABILITIES	<u>185 326</u>	<u>186 741</u>
TOTAL EQUITY AND LIABILITIES	<u>507 868</u>	<u>559 983</u>

Sofia, 28 November 2011

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2011

	01.01. - 30.09.2011	01.01. - 30.09.2010
	BGN '000	BGN '000
Cash flows from operating activity		
Cash receipts from customers	851 918	782 802
Cash paid to suppliers	(208 464)	(152 883)
Cash paid to personnel and for social security	(55 343)	(49 929)
Taxes paid (other than corporate income tax)	(575 711)	(506 267)
Taxes refunded (other than corporate income tax)	731	1 011
Corporate income tax paid	(2 494)	(179)
Foreign currency differences, net	(3 425)	(186)
Bank charges and interest on short-term loans for working capital paid	(625)	(1 178)
Interest received	1 087	1 029
Donations and sponsorship	(489)	(278)
Other proceeds/(payments), net	(124)	152
Net cash flows from operating activity	7 061	74 094
Cash flows from investing activity		
Purchases of property, plant and equipment	(30 146)	(9 825)
Purchases of intangible assets	(60)	(8)
Sales of property, plant and equipment	75	430
Interest received on term deposits provided	1 999	3 913
Matured deposits with commercial banks	-	12 000
Net cash flows (used in) / from investing activity	(28 132)	6 510
Cash flows from financing activity		
Long-term bank loans received	13 171	-
Short-term bank loans received	106 674	180 148
Long-term bank loans repaid	(2 290)	(747)
Short-term bank loans repaid	(111 855)	(194 515)
Dividends paid	(52 883)	(10 249)
Dividends paid to non-controlling interest	(4 386)	(186)
Interest and charges paid on investment loans	(576)	(288)
Payments under finance leases	(24)	(12)
Tantiemes paid	(6)	-
Net cash flows used in financing activity	(52 175)	(25 849)
Net (decrease) / increase in cash and cash equivalents	(73 246)	54 755
Cash and cash equivalents at 1 January - <i>audited</i>	183 008	133 340
Cash and cash equivalents at 30 September	109 762	188 095
incl.:		
Cash of a company in liquidation	15	29

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2011

	Attributable to the owners of the equity of the parent company					Total	Non-controlling interest	Total equity
	Share capital	Statutory reserve	Revaluation reserve	Retained earnings	Reserve from revaluation of a company upon declaring it in liquidation			
	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
Distribution of profit for:	-	2 184	-	(55 184)	-	(53 000)	(6 127)	(59 127)
* dividends	-	-	-	(52 983)	-	(52 983)	(6 126)	(59 109)
* reserves	-	2 184	-	(2 184)	-	-	-	-
* tantieme	-	-	-	(17)	-	(17)	(1)	(18)
Net profit for the period	-	-	-	7 244	-	7 244	1 183	8 427
Total comprehensive income	-	-	-	7 244	-	7 244	1 183	8 427
Other changes	-	(255)	(120)	375	-	-	-	-
* transfer to reserve "accumulated profits" upon withdrawal from use (depreciation) of property, plant and equipment	-	-	(120)	120	-	-	-	-
* loss cover chargeable to reserves	-	(255)	-	255	-	-	-	-
Balance on 30 September 2011	7 367	70 191	36 412	166 194	2 021	282 185	40 357	322 542

FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2011

	Attributable to the owners of the equity of the parent company						Total	Non-controlling interest	Total equity
	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			
	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
Distribution of profit for:	-	319	-	-	(2 620)	-	(2 301)	(198)	(2 499)
* dividends	-	-	-	-	(2 301)	-	(2 301)	(198)	(2 499)
* reserves	-	319	-	-	(319)	-	-	-	-
Net profit for the period	-	-	-	-	14 859	-	14 859	3 322	18 181
Total comprehensive income	-	-	-	-	14 859	-	14 859	3 322	18 181
Other changes	-	495	(768)	-	284	(11)	-	-	-
* transfer to reserve "accumulated profits" upon withdrawal from use (depreciation) of property, plant and equipment	-	-	(768)	-	779	(11)	-	-	-
* loss cover chargeable to reserves	-	(4 361)	-	-	4 361	-	-	-	-
* distribution of retained earnings to reserves	-	4 856	-	-	(4 856)	-	-	-	-
Changes in the parent company's participation in the ownership of the subsidiary	-	-	-	-	(139)	-	(139)	(391)	(530)
Balance at 30 September 2010	7 367	68 262	37 154	458	210 353	2 076	325 670	45 470	371 140

Sofia, 28 November 2011

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NOTES
TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 SEPTEMBER 2011

The consolidated financial statements of Bulgartabac Group for the period 1 January - 30 September 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 – 30 September) of the previous year.

1. Accounting policy

The Group presents condensed interim consolidated financial statements for the period ended 30 September 2011. In the course of its preparation the requirements of International Accounting Standard 34 Interim Financial Reporting have been applied 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.

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

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 Extinguishing 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 acquisition of the components of non-controlling 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 contracts 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 to the way of reporting 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 contracts 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 contracts 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 treatment of preliminary payments of future contributions if there is a minimum requirement for funding;

- **Interpretation of IFRIC 19** (new) Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

At the date of approval of these financial statements for issue, the following effective standards have been amended and improved, which are endorsed by the European Commission but not yet effective:

- **IFRS 7** (amended) Financial Instruments: Disclosure (effective for annual periods beginning on or after 30 June 2011). These amendments are meant to help users of financial statements to understand better the possible risk exposures that may remain with the entity that transfer financial assets and the effects of these risks on the financial position of the entity;
- **IFRS 1** (amended) First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 30 June 2011). These amendments relate to the period from which the amendments have been adopted for the first time in connection with the adoption of IFRS 7 Financial Instruments: Disclosure.

At the date of approval of these financial statements for issue, new standards have been adopted and existing standards have been amended and improved, which are approved by the International Accounting Standards Board (IASB) **but not yet effective and endorsed by the European Commission:**

- **IFRS 9** Financial Instruments (effective for annual periods beginning on or after 01 January 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 amortisable and at fair value.

- **IFRS 10** Consolidated Financial Statements (effective for annual periods beginning on or after 01 January 2013). IFRS 10 substitutes the consolidation principles provided for by IAS 27 and SIC 12 Consolidation – Special Purpose Entities, through the implementation of one consolidation model for all entities based on control, regardless of the type of investee and the form of control.

- **IFRS 11** Joint Arrangements (effective for annual periods beginning on or after 01 January 2013). IFRS 11 introduces new accounting requirements towards joint arrangements replacing IAS 31 Interests in Joint Ventures. The possibility to apply the proportionate consolidation method has been eliminated with regard to reporting jointly controlled entities. In addition, IFRS 11 eliminates jointly controlled assets and defines joint operations and joint ventures.

- **IFRS 12** Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 01 January 2013). IFRS 12 is a standard on disclosure requirements for all consolidated and non-consolidated entities where an entity holds interests. IFRS 12 is to mandate disclosures such that users of financial statements can evaluate, where control exists, any restrictions that might exist on the consolidated assets and liabilities, the exposure to risks associated with interests in non-consolidated entities, as well as the involvement of the non-controlling interest owners in the activity of the consolidated entity.

- **IFRS 13** Fair Value Measurement (effective for annual periods beginning on or after 01 January 2013). IFRS 13 replaces the guidelines for fair value determination provided for in the existing IFRS by a separate standard. IFRS 13 defines the fair value, provides recommendations on how to determine fair value and introduces certain requirements for its disclosure. IFRS 13 does not change the requirements for items to be assessed or disclosed at fair value.
- **IAS 27** (amended) Separate Financial Statements (effective for annual periods beginning on or after 01 January 2013). Amendments relate to the adoption of IFRS 10.
- **IAS 28** (amended) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 01 January 2013). Amendments relate to the adoption of IFRS 10, IFRS 11 and IFRS 12.
- **Revision of IAS 12** Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after 01 January 2012).
- **Revision of IFRS 1** in relation to hyperinflation and fixed dates on first-time adoption of IFRS (effective for annual periods beginning on or after 01 July 2011).
- **Revision of IAS 1** Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 01 July 2012).
- **Revision of IAS 19** Employee Benefits (effective for annual periods beginning on or after 01 January 2013).

2. Consolidation principles

In the preparation of the interim consolidated financial statements of Bulgartabac Group for the period 1 January - 30 September 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 - 30 September 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 subsidiary Asenovgrad 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 - 30 September 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, until November 2011, was 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 - 30 September 2011.

5. Dividends accrued

Pursuant to the decisions of the annual General Meetings of Shareholders of the subsidiaries of the Group held in the end of June 2011 dividends were accrued as follows:

Blagoevgrad-BT AD	BGN 31 159 thousand
Sofia-BT AD	<u>BGN 7 002 thousand</u>
Total amount of dividends	BGN 38 161 thousand

Dividends distributed by Blagoevgrad BT AD are from the 2010 profit amounted to BGN 7,105 thousand and from prior year retained earnings to BGN 24,054 thousand, respectively.

Dividends distributed by Sofia BT AD are from the 2010 profit.

Out of dividends approved, the dividend accrued to the parent company Bulgartabac-Holding AD amounts to BGN 32,035 thousand, and the amount of BGN 6,126 thousand is the dividend accrued to the non-controlling interest.

At the regular General Meeting of Shareholders of Bulgartabac Holding held in June 2011 a decision was taken for distribution of dividends amounting to BGN 52,983 thousand (BGN 4,194 thousand from the 2010 profit and BGN 48,789 thousand from prior year retained earnings). Dividends distributed per share amounted to BGN 7.¹⁹, incl. from 2010 profit: BGN 0.⁵⁷ and from prior year retained earnings: BGN 6.⁶².

Dividend distributed to the Republic of Bulgaria, through the Ministry Economy, Energy and Tourism, amounted to BGN 42,298 thousand.

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 50,825 thousand and intra-group balances in the amount of BGN 16,338 thousand were eliminated.

7. Financial risk management*Structure of financial assets and liabilities* by categories:

30 September 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	635	-	635
Receivables from clients	29,164	-	29,164
Cash and cash equivalents	110,035	-	110,035
Other current assets	1,149	-	1,149
Total financial assets	140,983	320	141,303
	Other financial liabilities		Total
	BGN'000		BGN'000
Financial liabilities			
Long-term bank loans	14,624		14,624
Payables to suppliers	21,246		21,246
Dividend payables	2,180		2,180
Short-term bank loans	1,300		1,300
Short-term portion of long-term bank loans	7,091		7,091
Other current liabilities	163		163
Total financial liabilities	46,604		46,604

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 minimising 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). A part of the operations is executed in BGN or EUR. At the same time, they perform sales to foreign clients 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 in USD is invested in short-term foreign currency deposits with good yields;
- arbitration of part of free cash from USD to EUR.

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

Foreign currency structure analysis

	In EUR	In USD	In other foreign currency	In BGN	Total
30 September 2011	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets					
Investments available-for-sale	-	-	-	320	320
Other non-current assets	-	561	-	74	635
Receivables from clients	3,668	-	-	25,496	29,164
Cash and cash equivalents	20,478	5,489	3	84,065	110,035
Other current assets	1	-	7	1,141	1,149
Total financial assets	24,147	6,050	10	111,096	141,303
Financial liabilities					
Long-term bank loans	14,624	-	-	-	14,624
Payables to suppliers	5,448	7,860	8	7,930	21,246
Dividend payables	-	-	-	2,180	2,180
Short-term bank loans	1,300	-	-	-	1,300
Short-term portion of long-term bank loans	7,091	-	-	-	7,091
Other current liabilities	30	-	-	133	163
Total financial liabilities	28,493	7,860	8	10,243	46,604

	In EUR	In USD	In other foreign currency	In BGN	Total
31 December 2010	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 30 September 2011, 4.28% 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.

	<i>Change of the exchange rate by +/-10%</i>	<i>USD</i>	
		<i>30.09.2011</i>	<i>31.12.2010</i>
		<i>BGN'000</i>	<i>BGN'000</i>
<i>Financial result -(loss)/ profit</i>	+	(163)	3,243
<i>Equity (component - retained earnings)</i>	+	(163)	3,243
<i>Financial result profit/(loss)</i>	-	163	(3,243)
<i>Equity (component - retained earnings)</i>	-	163	(3,243)

In case of an increase by 10% in the exchange rate of the USD to the BGN as at 30 September 2011, would decrease the Group's profit (after tax) for the year ending 30 September 2011 by BGN 163 thousand (2010: an increase by BGN 3,243 thousand) due to the effect of the increased BGN equivalent of financial liabilities (payables to suppliers) to the BGN equivalent of financial assets – cash and cash equivalents, and other non-current assets.

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 taxes) 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 less sensitive to currency risk for the period 1 January – 30 September 2011 than that in the prior reporting period due to the decrease in the Group's net exposure to foreign currency assets and liabilities denominated in USD (USD 1,250 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. During the reporting period, the Group has managed 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:

- the approved procedures are followed when choosing a bank for the purpose of achieving the most acceptable interest rate terms and conditions, as at the same time the need to diversify the risk of concentration of financial resources in the separate banks;
- the 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 23,015 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 amounting to BGN 12 thousand (31 December 2010: BGN 32 thousand). The latter expose the Group to a risk of changes in the fair value of interest rates.

30 September 2011	<i>Interest-free</i>	<i>With floating interest %</i>	<i>With fixed interest %</i>	<i>Total</i>
	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets				
Available-for-sale investments	320	-	-	320
Other non-current assets	-	564	71	635
Receivables from clients	28,435	-	729	29,164
Cash and cash equivalents	182	18	109,835	110,035
Other current assets	1,142	3	4	1,149
Total financial assets	30,079	585	110,639	141,303

Financial liabilities				
Long-term bank loans	-	14,624	-	14,624
Payables to suppliers	21,234	-	12	21,246
Dividend payables	2,180	-	-	2,180
Short-term bank loans	-	1,300	-	1,300
Short-term portion of long-term bank loans	-	7,091	-	7,091
Other current liabilities	163	-	-	163
Total financial liabilities	23,577	23,015	12	46,604
31 December 2010	<i>Interest-free</i>	<i>With floating interest %</i>	<i>With fixed interest %</i>	<i>Total</i>
	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 monitor and analyze the exposure against changed interest rates, and measure 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 increase in the interest rate of financial assets and liabilities in USD and in BGN by 50 basis points would result in a loss (after taxes) of BGN 101 thousand (2010: 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 components of the Group's equity 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 taxes) 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 minimise the above effects, the Group's management applies flexible pricing policy for its tobacco products and for increasing the export.

In order to control 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 minimised 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 in full and within the normally envisaged terms. The Group's receivables are presented net in the statement of financial position, after deducting any impairment. Such impairment has been made with regard to receivables where and when there have been events identifying losses due to uncollectability as per previous experience.

The Group's financial assets are mainly concentrated in the following groups: other non-current 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 the present Note.

In view of the credit risk of cash 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 (cash 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. During the reporting period, the Group has applied a diversification policy through which it has set 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 as well, 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 primarily 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 most acceptable 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, analysed by remaining terms from the end of the reporting period, are as follows:

BULGARTABAC GROUP

Notes to the Interim Consolidated Financial Statements for the period 1 January – 30 September 2011

30 September 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	-	-	-	-	74	-	561	-	635
Receivables from clients	-	29,164	-	-	-	-	-	-	29,164
Cash and cash equivalents	44,293	65,402	155	-	-	-	-	513	110,363
Other current assets	-	957	4	8	102	-	-	78	1,149
Total financial assets	44,293	95,523	159	8	176	-	561	911	141,631
Financial liabilities									
Long-term bank loans	-	63	59	225	8,705	6,691	-	-	15,743
Payables to suppliers	-	21,234	-	-	-	-	-	12	21,246
Dividend payables	-	2,180	-	-	-	-	-	-	2,180
Short-term bank loans	-	1,304	-	-	-	-	-	-	1,304
Short-term portion of long-term bank loans	-	2,060	1,976	3,820	-	-	-	-	7,856
Other current liabilities	-	122	-	-	-	-	-	41	163
Total financial liabilities	-	26,963	2,035	4,045	8,705	6,691	-	53	48,492

BULGARTABAC GROUP

Notes to the Interim Consolidated Financial Statements for the period 1 January – 30 September 2011

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 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 for both presented periods 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:

<u>Ratios</u>	<i>30.09.2011</i>	<i>31.12.2010</i>
Equity / Borrowings	1.74	2.00
Bank loans and finance lease / Borrowings	0.12	0.09
Cash and cash equivalents / Borrowings	0.59	0.98

Fair values

Fair value is 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 the fair value of these financial 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 is judged conservatively by the Group's management 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 statement of financial position are as reliable, adequate and trustworthy as possible for financial reporting purposes under the existing circumstances in the country.

8. Commitments and contingencies

Operating lease

Operating lease liabilities – the Group as a lessee

At 30 September some of the group companies are parties to operating lease agreements (cancellable) as a lessee:

- **Bulgartabac – Holding AD**

30.09.2011

2010

Leased cars for the company'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 Varna – term of the rental agreement of 1 year as from 17 June 2011. It may be terminated by means of a one-month advance notice.

Leased cars for the company'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 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**

30.09.2011

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

30.09.2011

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 20 September 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 17 June 2010 for a term of up to 1 year.

Leased cars for the company's activity. The contract is not limited by time and may be terminated by a one-month notice.

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 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 warehouses – term of the contract of up to 1 year as of 1 April 2010. Condition 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.

Rent of a warehouse – term of the contract of 7 months as of 1 June 2011. Condition for termination of the contract – the expiry of the term or the withdrawal of the tobacco stored therein.

None

• Bulgartabac – Trading EAD

30.09.2011

2010

A warehouse rented - term of the contract of up to 1 year as of 29 September 2011.

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 2011.

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:

	<i>30.09.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Within 1 year	1,155	1,152
From 1 to 5 years	281	1,054
Total	<u>1,436</u>	<u>2,206</u>

Receivables under operating lease – the Group as a lessor

At 30 September the most significant contracts for lease out of property owned by group companies under operating leases (cancellable) are as follows:

•Bulgartabac - Holding AD

30.09.2011

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.

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.

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.

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 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.

The properties have been treated as used in the operations.

•Blagoevgrad BT AD

30.09.2011

Warehouse premises and parts of buildings with a total leased out rental area of 551 sq. m. – term of the rental contracts – up to 21 months 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 April 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.

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 May 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)

30.09.2011

2010

None

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

30.09.2011

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 1 year as from 13 October 2011. 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

30.09.2011

2010

Auto mechanic workshop – total leased out rented area of 100 sq. m. and term of the contract of up to 1 year as of 1 January 2011.

Curing barns – total leased out rented area of 450 sq. m. and terms of the contracts of up to 1 year as of 1 January 2011.

Warehouses with a total rented area of 3,684 sq. m. and terms of the contracts of up to 1 year as of 1 January 2011.

A warehouse with a total rented area of 2,200 sq.m. and term of the contract of up to 9 months as of 15 March 2011.

Premises with a total rented area of 190 sq. m. and term of the contracts of up to 1 year as of 1 January 2011.

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.

Warehouses with a total rented area of 3,584 sq. m. and terms of the contracts of up to 1 year.

None.

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:

	30.09.2011	31.12.2010
	<i>BGN '000</i>	<i>BGN '000</i>
Within 1 year	259	812
From 1 to 5 years	25	104
	<u>284</u>	<u>916</u>

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 44,883 thousand has been paid:

Blagoevgrad BT AD

Investments scheduled for 2011 : BGN 28,428 thousand

Amounts paid: BGN 22,204 thousand

Sofia BT AD

Investments scheduled for 2011 : BGN 25,310 thousand

Amounts paid: BGN 22,328 thousand

Bulgartabac – Trading EAD

Investments scheduled for 2011 : BGN 623 thousand

Amounts paid: BGN 231 thousand

Pleven BT AD

Investments scheduled for 2011 : BGN 120 thousand

Amounts paid: BGN 120 thousand

Bank guarantees

At 30 September 2011, the bank guarantees issued by group companies in favour of their contractors amount to BGN 60,155 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	155	Rila Gas EAD
Sofia BT AD	Citibank N.A.	30,000	Customs Agency
		60,155	

At 30 September 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 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 30 September 2011, the bank guarantees provided to group companies by their contractors amounted to BGN 32,811 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	Municipal Bank AD	1,700	Speedstar EOOD
Blagoevgrad BT AD	Societe Generale Expressbank AD	1,600	Tabac Trading Partner Nord OOD
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 Bulbank Sofia	705	Foske & Co
Blagoevgrad BT AD	Unicredit Munich	523	Hauni Maschinenbau AG

Blagoevgrad BT AD	Municipal Bank AD	344	Delivery Pazardjik AD
Blagoevgrad BT AD	Unicredit Bologna	77	G.D. SPA, Italy
Sofia BT AD	Unicredit Milano	11,470	G.D. SPA, Italy
Sofia BT AD	Societe Generale Expressbank AD	1,500	Tabac Trading Partner OOD
Sofia BT AD	Societe Generale Expressbank AD	1,200	Tabac Trading Partner Nord 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
Sofia BT AD	Municipal Bank AD	130	Delivery Pazardjik AD
		32,811	

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, 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 in the country and 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 and Prestage. The decisions were in favour of Bulgartabac-Holding AD and were appealed against to the Supreme Court – Ankara by European Tobacco Inc. The cases are pending.

In Turkey, 2 cases were brought to the Intellectual and Industrial Rights Court Mersin 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 was for the refusal to register the MM trademark. The case was closed with a decision in favour of Bulgartabac-Holding AD.

In Turkey, before the Supreme Court – Ankara 2 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 was brought to the Court for Intellectual Property - Ankara. The decision was not in favour of Bulgartabac-Holding AD and was appealed against to the Supreme Court – 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 2 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 was the annulment of 2 trademarks President of European Tobacco. The decisions were in favour of Bulgartabac-Holding and were appealed by the Patent Authority. The cases are pending.

In Turkey, at the request of Bulgartabac - Holding AD a case was brought to the Intellectual and Industrial Rights Court – Ankara against the Patent Agency of Turkey and European Tobacco. The subject-matter of the case was the refusal to annul the trademark President of European Tobacco. The decision was in favour of Bulgartabac-Holding AD and was appealed against by the Patent Agency of Turkey and European Tobacco. The case is pending.

In Turkey, at the request of Bulgartabac - Holding AD a case was brought to the Intellectual and Industrial Rights Court – Ankara against the Patent Agency of Turkey and European Tobacco. The subject-matter of the case was the refusal to annul the trademark President of European Tobacco. The case is pending.

In Turkey, at the request of Philip Morris Brand Sarl – Switzerland a case was brought to the specialised Intellectual and Industrial Rights Court – Istanbul against Bulgartabac - Holding AD. The subject-matter of the case was the refusal to annul the trademarks Prestige и Prestige Slims of Bulgartabac - Holding AD in Turkey. The case is 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 initiated by Bulgartabac – Holding AD 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 to the Sofia Administrative Court against a decision of the Patent Authority for deletion of trademark Victoria. The decision was in favour of Bulgartabac - Holding AD. The decision of the Sofia Administrative Court was appealed against to the Supreme Administrative Court. The case was closed in favour of Bulgartabac-Holding AD.

In Austria, a case was initiated to the Supreme 1 Court in relation to the claim of Philip Morris Products rejected by the Trade Court – first instance 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 against 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 appeal of Bulgartabac - Holding AD was honoured by the Supreme Court which repealed the decision of the previous instance and returned the case for new hearing to the Trade Court of second instance. The decision of the Trade Court of second instance was in favour of Bulgartabac - Holding AD. Philip Morris Products – Switzerland filed an appeal to the Supreme Court against the decision. The appeal was rejected. The case was closed in favour of Bulgartabac - Holding AD.

In Poland, a case was initiated to the Administrative Court Warsaw on the grounds of an appeal of Bulgartabac – Holding AD against the Patent Authority in relation to the revocation of the registration of the trademark Prestige slims. 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 Products 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 Products to the Appellate Court of Vilnius. The case is pending.

In Bulgaria, a case was brought to the Sofia City Court 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 a case was brought to the Appellate Court of Bucharest against a decision of the Patent Agency to refuse the registration of the trademark E♥A slims in Romania. The case is pending.

In Romania, at a request of Bulgartabac - Holding AD a case was brought to an Appellate Court against Gallaher Canarias S.A., Spain, for the annulment of trademark Victory in Romania in relation to the registration of the trademark Victory of Bulgartabac - Holding AD. The decision was in favour of Bulgartabac - Holding AD. The decision was not appealed against and entered into force.

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 decisions are in favour of Bulgartabac - Holding AD.

In Greece, at a request of Bulgartabac - Holding AD a case was brought to the Administrative Court of Athens against the Patent Agency of Greece for the refusal to register the trademark Victory. The case is 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 interested 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 appeal of Philip Morris Products S.A. was honoured. A term of appealing the decision by Bulgartabac - Holding AD is ongoing. 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, a case was brought to the Sofia City Court at an appeal of the company “Reemtsma” GmbH, Germany, against a decision of the Patent Agency for obliteration of the international registration of trademark TIR. Bulgartabac - Holding AD was an interested party to the case. 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 decision is in favour of Bulgartabac - Holding AD.

In Bulgaria, at an appeal of the company “Japan Tobacco” Inc., Japan, 2 cases were initiated to the Sofia City Court against decisions of the Patent Authority for revocation of the registration of trademarks Mild Seven and Seven Star. The appeal was honoured. Bulgartabac - Holding AD filed an appeal against the decision to the Supreme Administrative Court. A decision was issued by virtue of which the appeal was rejected.

3. Cases initiated by Bulgartabac - Holding AD

Executive cases have also been initiated for collecting of receivables from other persons totalling BGN 153 thousand. The cases are pending.

Two cases were brought to the Sofia City Court against Board – 17 AD for infringement of exclusive 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 request was rejected. The decision was appealed against the Sofia Appellate Court. 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 Administrative Court. By a decision of the Supreme Administrative Court, the decision of the Administrative Court Sofia City was repealed in its part dealing with the rejection of the appeal of Bulgartabac - Holding AD and the Appeal and Enforcement Management Directorate – Sofia city was convicted to pay to Bulgartabac - Holding AD the amount of BGN 146 thousand being the costs incurred in relation to the case. The decision is final and cannot be appealed against.

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.

A case was initiated to the Supreme Court of Cassation at 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. The decision of the Burgas District Court was in favour of Bulgartabac - Holding AD. The decision was appealed against to the Supreme Court of Cassation.

A case was initiated to the Yambol District Court against Topolovgrad BT AD on the grounds of a claim for actual enforcement 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 to the Supreme Court of Cassation. The case is pending.

A case was initiated to the Arbitration Court at the BCCI against „Trakiya Tabac” EOOD on the grounds of a claim for actual enforcement 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 obliterated Supervisory Board of Bulgartabac - Holding AD is a party

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 CD TAB 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 to the Supreme Court of Cassation against the decision of the Sofia City Court.

5. Other cases

Supreme Administrative Court. The Board of Directors of Bulgartabac - Holding AD – claimant, and CD TAB EOOD, Dulovo - defendant. Appeal against the decision of the Administrative Court – Sofia city, by means of which a silent refusal, followed by the express refusal of the Supervisory Board of Bulgartabac - Holding AD on a bid of CD TAB EOOD for the purchase of 99.98% of the capital of Dulovo Tabac AD, was declared null and void.

Supreme Administrative Court. CD TAB EOOD, Dulovo – claimant, the Board of Directors of Bulgartabac - Holding AD – defendant. Appeal against a ruling of the Administrative Court – Sofia city, by means of which the proceedings against the Supervisory Board of Bulgartabac - Holding AD was terminated for the lack of action on the part of the Supervisory Board with respect to the performance of its obligations

under paragraph 5 of the Additional Provisions of the Privatisation and Post-Privatisation Act, objectivated in the non-filing of a request to the public enforcer at the State Receivables Agency, the Regional Directorate of Varna, for the suspension of the enforcement collection actions towards public liabilities of Dulovo Tabac AD. The case is closed.

6. Court cases whereto Bulgartabac - Holding AD is an interested party

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 is an interest party to the case. The Supreme Administrative Court – a three-member panel 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 to the Supreme Administrative Court – a five-member panel. The Supreme Administrative Court – a five-member panel returned the case for new hearing. The case is pending.

Asenovgrad Tabac AD

The company brought a case to the Parvomay Regional Court in connection with the illegal disposal of land by a natural person for the amount of BGN 4 thousand. The case was closed by mutual consent and a term was set for the individual to settle its payments to the company.

The company brought a case to the Plovdiv District Court against SP Nikola Petrov for the amount of BGN 12 thousand in connection with the use of a property after the expiry of the rental term. The Plovdiv District Court honoured partially the claim of Asenovgrad Tabac AD. An appeal was filed by Asenovgrad Tabac AD for the remaining amount of the claim.

The company brought a case to the Plovdiv District Court against a natural person in connection with an unpaid service for the amount of BGN 8 thousand. The Plovdiv District Court honoured the claim of Asenovgrad Tabac AD. The individual filed an appeal against the decision to the Supreme Court of Cassation, his grounds being that he was not summoned in accordance with the procedure. No court decision has been issued yet; however the individual is repaying his liabilities to the company.

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.

A case was brought to the Blagoevgrad Regional Court against the Head of the South West Customs Office for appealing a penal decree for BGN 1 thousand. By decisions of the Regional Court of Blagoevgrad and the Administrative Court of Blagoevgrad, the penal decree was repealed.

A case was brought to the Blagoevgrad Regional Court against the Head of the South West Customs Office for appealing a penal decree for BGN 1 thousand. By decisions of the Regional Court of Blagoevgrad and the Administrative Court of Blagoevgrad, the penal decree was confirmed.

A case was brought to the Blagoevgrad Regional Court against the Head of the South West Customs Office for appealing a penal decree for BGN 129 thousand. By decisions of the Regional Court of Blagoevgrad and the Administrative Court of Blagoevgrad, the penal decree was repealed.

A case was brought to the Blagoevgrad Regional Court against the Head of the South West Customs Office for appealing a penal decree for BGN 234 thousand. By decisions of the Regional Court of Blagoevgrad and the Administrative Court of Blagoevgrad, the penal decree was repealed.

A case was brought to the Blagoevgrad Regional Court against the Head of the South West Customs Office for appealing a penal decree for BGN 67 thousand. The case is pending.

A case was brought to the Blagoevgrad Regional Court against the Executive Director of the Energy Effectiveness Agency – Sofia for appealing a penal decree.

A case was brought to the Blagoevgrad Regional Court against Blagoevgrad BT AD for revocation of an imposed disciplinary fine.

Administrative cases whereto Blagoevgrad BT AD is a party

On an administrative case concerning buildings, whereto Blagoevgrad BT AD was an interested party, 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. The decision was appealed against to the Blagoevgrad District Court.

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. At an appeal of the defendants the case was brought to the Pleven District Court.

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.

A case was brought to the Sofia Regional Court at the request of Sofia BT AD for revocation of a property sanction under a tax assessment deed issued by the Customs Agency for violations in applying the Excise Duties and Tax Warehouses Act in the total amount of BGN 2 thousand. The penal decree was abrogated. The Customs Agency appealed against the decision to the Administrative Court – Sofia city.

A case was brought to the Sofia Regional Court at the request of Sofia BT AD for revocation of a property sanction under a tax assessment deed issued by the Customs Agency for violations in applying the Excise Duties and Tax Warehouses Act in the total amount of BGN 27 thousand. The penal decree was abrogated. The Customs Agency appealed against the decision to the Administrative Court – Sofia city. The decision is in favour of Sofia BT AD.

A case was brought to the Sofia Regional Court at the request of Sofia BT AD for revocation of a property sanction under a tax assessment deed issued by the Customs Agency for violations in applying the Excise Duties and Tax Warehouses Act in the total amount of BGN 11 thousand. By a decision of the Sofia Regional Court the penal decree was confirmed. The decision was appealed against by Sofia BT AD to the Administrative Court – Sofia city. The Administrative Court – Sofia city confirmed the amount in favour of the Customs Agency.

A case was brought to the Sofia Regional Court against Sofia BT AD at the request of an individual for revocation of disciplinary dismissal and property claims.

Haskovo Tabac AD (in liquidation)

Twenty labour executive cases (in the total amount of BGN 35 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.

A civil case was brought against Haskovo Tabac AD to the Haskovo Regional Court for wrongful dismissal. The decision was in favour of Haskovo Tabac AD. The claimant appealed against the decision to the Supreme Court of Cassation.

A civil case was brought against Haskovo Tabac AD to the Haskovo Regional Court for professional illness.

A civil case was brought against Haskovo Tabac AD to the Haskovo Regional Court for determination of a lawyer's fee. The decision was in favour of Haskovo Tabac AD. The decision was appealed against to the Haskovo District Court.

Two civil cases were brought against Haskovo Tabac AD to the Haskovo District Court. The decision was in favour of Haskovo Tabac AD. The decision was appealed against to the Plovdiv Appellate Court. The appeal was rejected.

Haskovo Tabac AD 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 before the Shumen District Court an executive case against Correct Service OOD for unpaid rent under a contract. The decision was in favour of Shumen Tabac Ad and a writ of execution was issued by a private judicial enforcer.

Liabilities amounting to BGN 646 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 30 September 2011 assets not owned by the Group are safeguarded therein, as follows:

- tobacco – 8 t (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 publicly announced tender carried out – pursuant to decision No 3219-II of 18 April 2011 (promulgated in SG, issue 34 of 10 May 2011) of the Privatisation and Post-privatisation Control Agency (the Agency), a Privatisation Sale Contract was signed on 12 September 2011 between the Agency and BT Invest GmbH, Austria, for the sale of 79.83% of the capital of Bulgartabac-Holding AD, Sofia.

On 14 October 2011, the Agency, in its capacity of a seller, transferred to BT Invest GmbH, Austria, 5,881,380 shares, representing 79.83% of the capital of Bulgartabac-Holding AD.

Citigroup Global Markets Limited was the consultant to the transaction on the part of the Privatisation and Post-privatisation Control Agency.

Liquidation and insolvency procedures of group companies

Asenovgrad Tabac AD (in liquidation)

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

By a decision of the General Meeting of the company, held on 1 September 2011, the following decisions were passed: winding up and announcing the company's liquidation, discontinuing the powers of the Board of Directors, setting a term to complete the liquidation – one year as of the date of announcing the invitation to the creditors to request their receivables, and appointing a liquidator.

The decision was registered with the Trade Register at the Registry Agency on 5 October 2011.

Haskovo Tabac AD (in liquidation)

The decision of the General Meeting for winding-up the company and starting a liquidation procedure was entered by a decision of the 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.

By a decision of the General Meeting of Shareholders of the company, held on 21 June 2011, the term for completing the company's liquidation was extended 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 against 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 CD TAB EOOD, as also an appeal for suspension of the proceedings by CD TAB EOOD. At present, procedures for issuing decisions on the appeals filed are ongoing.

10. Events after the end of the reporting period

Election of new members of the Board of Directors of the companies of Bulgartabac Group

At an extraordinary General Meeting of Bulgartabac-Holding AD, held on 1 November 2011, the members of the Board of Directors – Alexander Manolev, Georgi Kostov and Ivan Bilarev were discharged. New members of the Board of Directors were elected, and namely: Alexander Romanov, Yavor Draganov, Angel Dimitrov, Ventsislav Cholakov, and Miglena Hristova, with a 3-year mandate. The company is represented jointly by the two Executive Directors, Angel Dimitrov and Ventsislav Cholakov. On 18 November 2011, Ivan Bilarev was registered with the Trade Register at the Registry Agency as Procurator who has the right to represent the company jointly with one of the Executive Directors.

At an extraordinary General Meeting of Shareholders of Sofia BT AD, held on 21 November 2011, the members of the Board of Directors – Irena Valeva, Rumen Porozhanov, and Krasimir Petrov, were discharged. New members of the Board of Directors were elected, and namely: Angel Dimitrov, Ventsislav Cholakov and Lilyana Dinkova, with a 3-year mandate.

At an extraordinary General Meeting of Shareholders of Pleven BT AD, held on 22 November 2011, the members of the Board of Directors – Angel Blazhev, Vladimir Tsvetanov, and Diana Nikolova, were discharged. New members of the Board of Directors were elected, and namely: Angel Dimitrov, Ventsislav Cholakov, and Ivo Koychev, with a 3-year mandate.

At an extraordinary General Meeting of Shareholders of Blagoevgrad BT AD, held on 23 November 2011, the members of the Board of Directors – Petar Papucharov, Emil Sandev, and Yasen Popvasilev, were discharged. New members of the Board of Directors were elected, and namely: Angel Dimitrov, Ventsislav Cholakov, and Georgi Kostov, with a 3-year mandate.

Sofia, 28 November 2011

Executive Directors: *signature /illegible/*
(Ventsislav Cholakov)

signature /illegible/
(Angel Dimitrov)

Chief Accountant: *signature /illegible/*
(Diana Nikolova)

Seal of Bulgartabac Holding AD