

Translation from Bulgarian

INTERIM REPORT

ON THE ACTIVITY OF BULGARTABAC GROUP

AS OF 30 September 2011

(prepared in accordance with Art. 100o, para. 4, i.2 of Public Offering of Securities Act (POSA))

1. Important events, which have occurred during the second quarter of 2011, with accumulation from the beginning of the year, and their impact on the results reported in the financial statements of the Group

➤ Procedure for privatisation of Bulgartabac-Holding AD

An important event, which has occurred after the end of the reporting period, is the change in the persons exercising control over Bulgartabac-Holding AD as a result of the completed procedure for the privatisation of the State participation in the company's capital.

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 (PPCA), a Privatisation Sale Contract was signed on 12 September 2011 between PPCA 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.

The transaction was registered with the Central Depository on 14 October 2011.

➤ Announcement of Asenovgrad-Tabac AD, a subsidiary of Bulgartabac-Holding AD, in liquidation

By a decision of the extraordinary General Meeting of Asenovgrad-Tabac AD, 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.

➤ Setting dates for the extraordinary General Meetings of Shareholders of Bulgartabac-Holding AD and of its subsidiaries, Sofia-BT AD, Blagoevgrad-BT AD, Pleven-BT AD, and Bulgartabac-Trading EAD

In pursuance of a letter of the Minister of Economy, Energy and Tourism of 20 September 2011 regarding setting dates for the extraordinary General Meetings of Shareholders of Bulgartabac-Holding AD and its subsidiaries, in accordance with the agreements reached by the signed contract for privatisation sale of shares in the capital of Bulgartabac-Holding AD, the Board of Directors of Bulgartabac-Holding AD, at its meeting held on 27 September 2011, took a decision to call an extraordinary General Meeting of Shareholders of Bulgartabac-Holding AD to be held on 01 November 2011, as also decisions, in its capacity of a shareholder who holds shares representing at least 5 per cent of the capital for more than three months, to request that extraordinary General Meetings of Shareholders of its subsidiaries, Sofia-BT AD (on 21 November 2011), Blagoevgrad-BT AD (on 23 November 2011), and Pleven-Bulgartabac AD (on 22 November 2011), be called as well, and a decision to hold a meeting of the Board of Directors of Bulgartabac-Holding AD as a sole owner of the capital of Bulgartabac-Trading EAD on 23 November 2011.

The invitations to call the extraordinary GMS were registered with the Trade Register at the Registry Agency as follows:

- of Bulgartabac-Holding AD – on 29 September 2011;
- of Sofia-BT AD – on 07 October 2011;
- of Blagoevgrad-BT AD – on 11 October 2011;
- of Pleven-BT AD – on 10 October 2011.

Dividends

1. At the regular General Meetings of Shareholders of the subsidiaries of Bulgartabac Group held in June 2011 decisions for distribution of dividends for 2010 were taken by the following subsidiaries:

Blagoevgrad-BT AD	BGN 31 158 447.10
Sofia-BT AD	BGN 7 001 259.03
Total	<u>BGN 38 159 706.13</u>

Out of dividends approved, the amount of BGN 32,034,897.41 will be paid to the parent company Bulgartabac-Holding AD, and the amount of BGN 6,124,808.72 will be paid to minority shareholders.

2. The exact amount of dividends to be paid by Bulgartabac-Holding AD to its shareholders is as follows:

- The total amount of dividends under items 5, 6 and 16 of the agenda is BGN 52,983,360.41, incl. for the State, represented by the Ministry Economy, Energy and Tourism – BGN 42,297,527.65 and for the minority dividends – BGN 10,685,832.76.
- Gross amount of dividends per share – BGN 7.191769219;
- Net amount of dividends per share /less tax on dividends of 5% for the persons under Art. 194, para.1 of Personal Income Taxation Act /PITA/ - BGN 6.832180758.

➤ **Termination of the insolvency procedure and obliteration of Harmanli-Tabac AD, town of Harmanli, a subsidiary of Bulgartabac-Holding AD**

By a decision of the Haskovo District Court dated 28 December 2010 issued in relation to a civil case No 138/2007 the insolvency procedure of Harmanli-Tabac AD /in insolvency/, with registered address and address of management: town of Harmanli, 13 Bulgaria Boulevard, UIC 126065718, was terminated due to exhausting the insolvency mass. The powers of the trustee in bankruptcy were ceased and also the effectiveness of the general interdiction and pledge on the debtor's property. The obliteration of the company was enacted due to exhausting the insolvency mass. The court decision was entered into the Trade Register on 5 January 2011 and entered into force on 12 January 2011.

2. Development of the activity during the first nine months of 2011

➤ **Tobacco buy-up and processing**

During Q'4 of 2010, the Board of Directors of Bulgartabac-Holding AD took a decision to replace Pleven-BT AD as a party to the contracts for manufacturing and purchasing with tobacco growers of groups Basma, Kaba Koulak and Burley varieties, crop 2010. The purchasing of group Burley started late in the year 2010 and 99 tons of raw tobacco were purchased by its end.

The purchasing of these three groups of varieties was done by Pleven-BT AD by 31 March 2011 in accordance with the purchase contracts concluded.

With regard to the calculations of the quantities of Bulgarian tobaccos required by Bulgartabac Group and the market situation, the purchasing prices of large leaf tobaccos were increased as compared to the minimum purchasing prices of the same variety groups valid for crop 2009. Taking into consideration the balance on the market, purchasing prices by classes for the variety group Basma, crop 2010, were preserved at the levels of crop 2009. The purchasing prices of Kaba Koulak variety group were not changed as well.

The Board of Directors of Pleven BT AD took a decision to determine the purchasing prices for Variety group Virginia, and that of Bulgartabac-Holding for groups Basma, Kaba Koulak and Burley, respectively. The approved purchasing prices by classes for crop 2010 are as follows:

Class	Virginia	Burley	Kaba Koulak	Basma
I	6.10 BGN/kg.	3.90 BGN/kg.	3.80 BGN/kg.	7.35 BGN/kg.
II	4.00 BGN/kg.	2.60 BGN/kg.	3.10 BGN/kg.	4.85 BGN/kg.
III	1.80 BGN/kg.	1.40 BGN/kg.	1.85 BGN/kg.	1.90 BGN/kg.

The quantities of raw tobacco, crop 2010, purchased during the first quarter of 2011 by the Group were as follows:

Variety group Virginia	- 2 297 tons
Variety group Basma	- 2 317 tons
Variety group Kaba Koulak	- 540 tons
Variety group <u>Burley</u>	- 973 tons
Total	6 127 tons

In July 2011, based on the service contracts concluded, Pleven-BT AD completed the processing of tobacco of Burley, Kaba Koulak, and Basma varieties, crop 2010, owned by Bulgartabac-Holding AD, and of Virginia tobacco, crop 2010, owned by Pleven-BT AD.

Finished products manufactured, crop 2010, were as follows:

Burley	814 tons
Virginia	1 992 tons
Kaba Koulak	445 tons
<u>Basma</u>	2 285 tons
Total	5 536 tons

Intra-group revenue from sales of Bulgarian tobacco of Bulgartabac-Holding AD and Pleven-BT AD for the first nine months of 2011 amounted to BGN 18,054 thousand, VAT excluded. Revenue from services related to tobacco buy-out and processing amounted to BGN 5 267 thousand.

In view of the needs of cigarette factories of the Group and with the aim to reduce the risk of insufficient quantities of Bulgarian tobacco, Bulgartabac Group concluded contracts for the import of 1 000 tons Virginia in leaves that is of the type of filling tobacco, such as the Bulgarian Virginia, and is of competitive price. The imported raw tobacco after stripping – processing at Pleven-BT AD, will be used as a raw material for the cigarette manufacturing at Sofia-BT AD and Blagoevgrad-BT AD.

During Q'3, the buy-out of Virginia tobacco, crop 2011, commenced. The buy-out prices determined by the Board of Directors of Pleven-BT AD, by classes, were as follows:

Class	Variety group Virginia
I class	5.60 BGN/kg
II class	4.00 BGN/kg
III class	1.80 BGN/kg

During the period under review, 799 tons of Virginia, crop 2011, were bought-out.

➤ **Trade in tobacco**

The operating results as of 30 September 2011 relating to tobacco sales /export, Intra Community Supplies and domestic sales/ aggregated for Bulgartabac Group as a whole, are presented in the tables below:

Sales of tobacco for Export and Intra Community Supplies - total for BULGARTABAC Group	
30 September 2011	30 September 2010
958 tons	1,173 tons
Sales of tobacco in the domestic market to third parties outside BULGARTABAC Group	
30 September 2011	30 September 2010
592 tons	242 tons
Total sales of tobacco /Export, Intra Community Supplies and domestic market/ for BULGARTABAC Group	
30 September 2011	30 September 2010
1,550 tons	1,415 tons

- *Tobacco export*

Tobacco supply is directed mainly to leading tobacco dealers in the sector, thus on the one hand allowing the maintenance and activation of export possibilities, and on the other hand reducing significantly existing trade risks. Risks related to payment of tobaccos sold are cut down to the minimum, and no tobacco deliveries are made under deferred payment conditions to markets and firms at risk.

In the first nine months of 2011, tobaccos were sold under contracts concluded in 2009, 2010, and 2011. The export structure for this period includes also batches from crops 2008, 2009, and 2010, as also some small quantities of crop 2006. Compared with the same reporting period of 2010, during the first nine months of 2011 there was an increase in the total volume of tobacco sold in terms of quantity and amount. The total quantity of tobacco sold by Bulgartabac Group to non-related parties during the first nine months of 2011 was 1,549,951 kg of tobacco amounting to BGN 7,477,457.58 thousand.

- *Tobacco import*

For the needs of cigarette production the Bulgartabac group companies import Virginia and Burley tobaccos, tobacco stems and reconstituted tobacco. The main sources for purchasing high quality large leaf Virginia and Burley tobaccos are the countries with the most developed production and international trade – Brazil, Zimbabwe, USA, Argentina, Kenya, and Malawi. Tobacco stems are imported mainly from China and Argentina, and reconstituted tobacco from France due to the sufficiently good quality characteristics and good trade terms and conditions. In the first nine months of 2011, 6,909,660 kg of raw tobacco were imported for the amount of USD 37,345,910.20 and EUR 1,827,705.00.

➤ **Domestic market of tobacco products**

The policy pursued by Bulgartabac-Holding AD during 2011 with regard to the domestic market is entirely consistent with the market conditions and is subject to the aim of stabilizing and maintaining the positions on the domestic market achieved in the end of 2010.

The company reports growth in sales of cigarettes for the first nine months of 2011 on the domestic market compared to the same period of the previous year.

The usual fluctuations in the separate months are observed during the reporting period; in general, however, we report a trend of regaining the company's market share.

Since the beginning of the year Bulgartabac-Holding AD has been manufacturing and marketing to the domestic market a new format of consumer pack containing 10 cigarettes by the piece of the well-known brands Melnik, MM and GD.

In Q'3 of 2011, Bulgartabac-Holding AD commenced the production of RIP (Reduced Ignition Propensity) cigarettes, or the so called "RIP cigarettes", which comply with Standard EN 16156:2010 for fire safety in accordance with the new regulation adopted within the European Union and the introduction, as of 17 November 2011, of a new standard for tobacco products manufacturing by using special cigarette paper.

The market of tobacco products during the reporting period was characterized by extraordinary dynamics and experienced a number of objective factors which had a direct impact on the sales of cigarettes on the domestic market:

- *Pricing policy and competition*

During the current calendar year, and for the first time in the last five years, the excise duty rate of tobacco products was not changed and the 2010 levels were kept. Nevertheless, the declining trend in consumption reported in 2010 continued to exist throughout the first nine months of this year as well.

For most of the Bulgarian smokers, their preferences for a given trademark are strongly influenced by its price.

During the current year, the efforts of Bulgartabac-Holding with regard to its pricing policy for the domestic market are directed towards stabilising and maintaining the market share of the Holding's leading brands within the separate price groups. In response to the reduced purchasing power of the population, a new format of cigarette pack was launched - cigarettes in packs of 10 pieces – a format which market share has increased constantly over the last six months of the year and reached 7% of total sales of tobacco products in the territory of the country.

The competition is strong, with the cigarette factories in the country facing a constantly shrinking market. Moreover, the product we offer and sale is under a regime that imposes gradually various normative restrictions and other restrictive legal measures to limit smoking.

- *Unregulated trade*

During the first nine months of 2011, the levels of offering and unregulated trade in tobacco products remained high. The levels of contraband offering of cigarettes and ROY tobacco of an unclear origin and quality remained the same. The sale of cigarettes with foreign excise stamps or without excise stamps is nation-wide and covers the entire territory of the country including the tiniest settlements.

According to data of an independent marketing agency, the excise market of tobacco products for the first nine months of 2011 has shrunk by almost 12% compared to the same period of 2010.

- *Financial and economic crisis*

The trend of decrease in sales of tobacco products with Bulgarian excise stamps applies to ours, as well as to competitor's cigarette brands. The sensible fall of consumption of FMCG is due to the decreased purchasing power of the population, shrinking of households' expenses, the trend among smokers to reduce their smoking or even quit smoking completely.

Retailers experience some difficulties in ensuring the required working capital due on the one hand to the expensive credit resources and on the other hand to the significant decline in business. This reflects on the range of tobacco products offered in the points of sale. Only the best selling brands are supplied in limited quantities.

- *Distribution*

The marketing studies of the reporting period /data covers the period until March 2011/ show that the distribution of Bulgartabac-Holding AD covers 96% of the points of sale of tobacco products in the country.

During the reporting period, the Holding updated the packing of the most sellable brand in Bulgaria - "Victory". Since March the family has been offered to the trade network in a new format and design. The new vision of the family "Victory" was supported by a large-scope marketing activity.

The brands of the Bulgartabac Group have a sustained nation-wide presence and in almost all points of sale, regardless of their size and importance.

➤ **Export of tobacco products**

The trade policy of Bulgartabac-Holding AD for the first nine months of 2011 was directed towards the implementation of the main targets, set by the 2011 export program, namely:

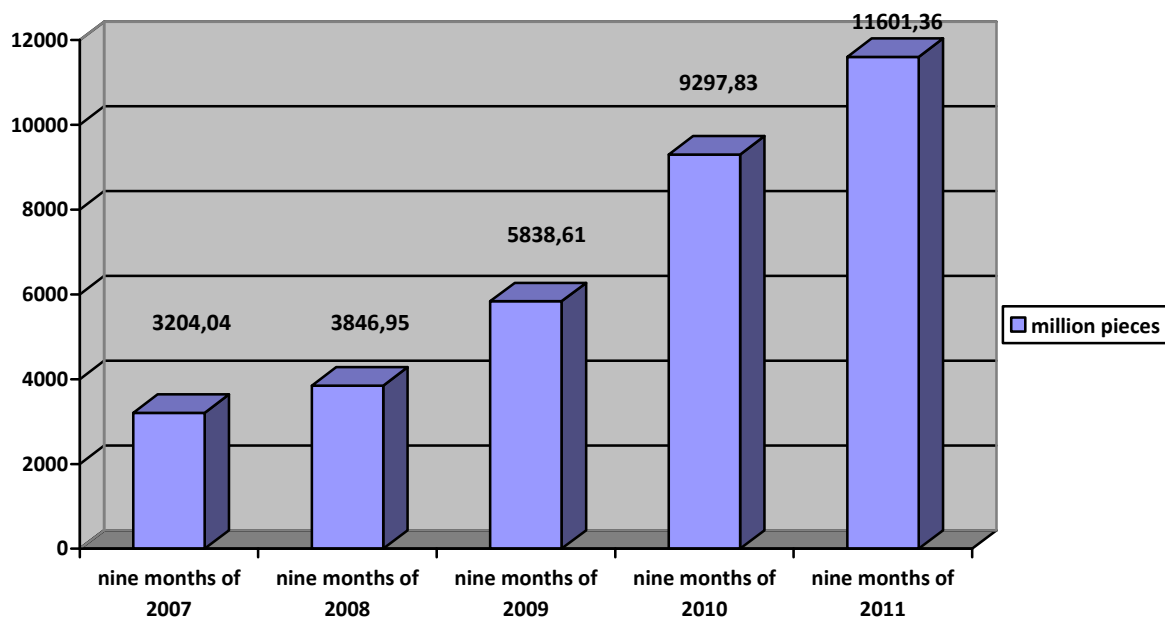
- Increase of exported cigarette volumes;
- Expansion of markets where cigarette brands owned by Bulgartabac-Holding AD are being sold;
- Diversification and expansion of product portfolio for export;
- Increase of sales revenue per unit of produce;
- Selection of a strategic partner having a well-developed distribution network in each region;
- Development of blends in conformity with consumers' preferences in the respective regions;
- Finding the optimal forms for brands' establishment (promotional prices, marketing activities, etc)
- Collecting information on the main competitors in the region;
- Setting up of a product portfolio of brands enjoying legal protection within the respective region.

During the reporting period, the export policy of Bulgartabac-Holding AD covered the targeted markets in the following regions: Middle East, Africa, Balkan countries, CIS, Far East, EU, and Duty Free Zones.

During the first nine months of 2011, the export of Bulgartabac-Holding AD reached **11 601 million pieces**, while for the same period of 2010 it was **9 297 million pieces**. There is a growth of **24.78%** in the natural volumes, or **74.47%** of volumes budgeted in the export programme of the company for 2011. During the first nine months of 2011 Blagoevgrad-BT AD manufactured and sold 5,808,235 thousand pieces vs. 4,620,650 thousand pieces for the first nine months of 2010, or a growth of 25.70%, and respectively, during the first nine months of 2011 Sofia-BT AD manufactured and sold 5,793,127.20 thousand pieces vs. 4,677,182 thousand pieces for the first nine months of 2010, or a growth of 23.86%.

(million pieces)

nine months of 2007	3,204.04
nine months of 2008	3,846.95
nine months of 2009	5,838.61
nine months of 2010	9,297.83
nine months of 2011	11,601.36

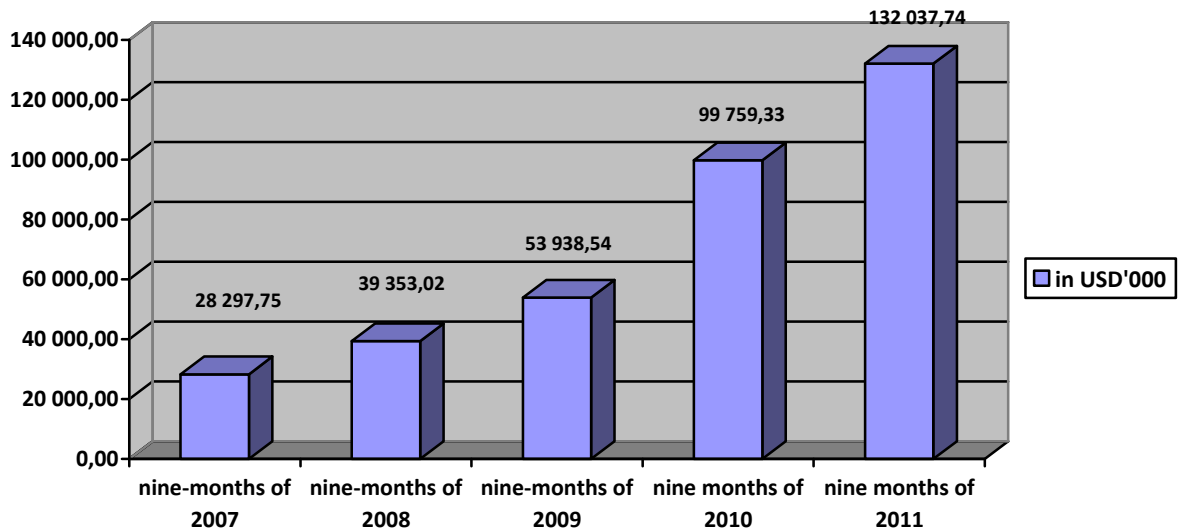


Sales revenue for *the first nine months of 2011* amounted to USD 132 037 739.44 and EUR 8 698 040.20. Respectively, sales revenue for *the first nine months of 2010* was as follows: USD 99 759 330.76 and EUR 10 200 179.92.

During the period under review, the USD revenue, by factories, was as follows: Blagoevgrad-BT AD – USD 72 817 800 in 2011 vs. USD 56 890 903 in 2010, or a growth of 28%, and with regard to Sofia-BT AD - USD 59 219 939.44 in 2011 vs. USD 42 868 427.76 in 2010, or a growth of 38.14%. The EUR revenue for the first nine months, by factories, was as follows: Blagoevgrad-BT AD – EUR 1 447 318.00 in 2011 vs. EUR 1 209 184.00 in 2010, or a growth of 19.69%, and with regard to Sofia-BT AD – EUR 7 250 722.20 in 2011 vs. EUR 8 990 995.92 in 2010, or a decline of 19.36%.

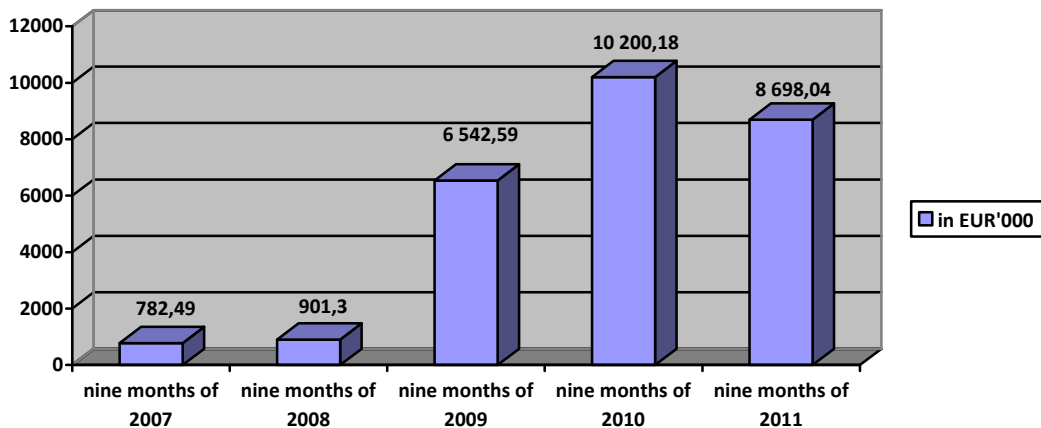
(in USD'000)

nine months of 2007	28 297.75
nine months of 2008	39 353.02
nine months of 2009	53 938.54
nine months of 2010	99 759.33
nine months of 2011	132 037.74



(in EUR'000)

nine months of 2007	782.49
nine months of 2008	901.30
nine months of 2009	6 542.59
nine months of 2010	10 200.18
nine months of 2011	8 698.04



Considering the above data, it may be concluded **that during the first nine months of 2011, despite the gradual increase in export prices, the volumes sold are increasing compared to that sold in the first nine months of 2010.** Also, following the significant drop in sales for the Africa region in 2010 as a consequence of the discontinued manufacturing of brands, owned by the client, the volumes sold of brands, owned by Bulgartabac-Holding AD, reported a growing trend.

Based on the trade representation contracts, Bulgartabac-Holding AD mediates in the overall process of negotiating, ordering and exporting the respective quantities of cigarette varieties by the subsidiaries. In

relation to the above:

- Contracts were concluded and discussions were held with strategic partners operating well-developed distribution networks in each of the above-mentioned regions;
- The domestic competition of our brands offered in one and same region was successfully neutralised
- During the period under review, the negotiations were finalised and cigarettes were exported for the first time to Poland, Croatia (duty free shops), Israel, Turkmenistan and Moldova;
- The negotiations were completed and first exports of cigarettes were realised to Poland, Croatia (Duty Free Shops), Israel, Turkmenistan, and Moldova. It is expected that in Q'4 of 2011 the first export to Russia will be made as well;
- We have started the development of cigarettes super slims 83 mm for export.

The results achieved at present are based on Bulgartabac-Holding AD's well-developed export portfolio for 2011.

- Well balanced – covering all possible formats and lengths in cigarette manufacturing – HLP (84 mm., 100 mm.), RC 84 mm., Slims 97 mm. (flap-flip top & octagonal), soft pack (84 mm.& 100 mm.);
- Optimal ratio “quality – price”;
- State-of-the-art design;

In the short-term run, the activity of Bulgartabac-Holding AD will be focused on the following activities:

- Identification of new markets for the company;
- Identification of changes in consumer demand on each of the existing markets as well as the consumer characteristics of the new ones;
- Continued development and updating (customisation) of the portfolio - entirely customer-oriented;
- Development of cigarettes super slims 83 mm for export.

The objective analysis of the markets and potential of our brands reveals that it is quite possible to achieve sales volumes in foreign markets of 15 579 240 thousand pieces by the end of 2011, or a growth of 19% compared with the volumes sold in 2010.

➤ ***In the area of auxiliary materials and spare parts***

The main target in 2011 is to provide the subsidiaries with auxiliary materials and spare parts in order to ensure the implementation of their production programs.

During the period under review, aiming at achieving the goals for maintaining the best possible prices and terms of delivery of auxiliary materials, the practice to enlarge the scope of companies-suppliers and to carry out production testing at subsidiaries for approval of the qualities of at least three suppliers for each material as to avoid monopolization of supplies by one supplier was continued.

The following were events directly related to this activity and having an impact thereon:

- In view of the drastic raise of PP resin prices – the main raw material for PP foil production and the increase of PP foil world prices, the foil prices are by approx. 3% to 5% higher than that in 2010.

- Considering the increased consumption in 2010 of stiff cardboard for recess filters production, a 5% discount was agreed upon when reaching certain annual quantities. The levels of supply prices of stiff cardboard in 2011 were 7% lower as compared to the average in 2010.
- Despite the raise in cellulose prices, upon negotiations, we managed to agree on prices for the supply of cigarette paper, wrapping paper and tipping paper for the first nine months of 2011 that are equal to the 2010 supply prices.
- The price of inner frame cardboards has increased by 5% to 7% due to the increase in prices of cellulose.
- In 2011 the trend of limited supply of acetate tow in the global market continued due to the higher demand and shortage of raw materials.
- Production capacities of all manufacturers are filled up and in view of the increased prices of cellulose in the international markets, the prices for tow delivery in 2011 have increased by approximately 4 - 5% compared with that in 2010.
- Recess filters – due to the increased prices of tow, the main raw material for the production of filters, after negotiations held a minimum increase in prices of 2% to 3% was agreed compared with the 2010 prices.
- The analysis of the period under review revealed an increase in price of Tryacetin by 8% to 10% and maintaining their 2010 levels for the other chemical products - propilenglikol and glycerine.
- The prices of aroma products, aluminium foil, printing materials, glues and active charcoal maintained their 2010 levels.
- The production process is supplied with spare parts through orders to an approved supplier by the manufacturer of the plant and equipment.
- In connection with Directive No 001/95/EC for safety of goods of the European Union and the introduction of Standard EN 16156, as of 17 November 2011 all cigarettes to be sold in the domestic market and in the markets of the EU Member States must be produced using a LIP cigarette paper.

The subsidiaries commenced the production of cigarettes with this quality of paper in the end of September. This trend will continue in the future as well.

➤ ***In the area of technological policy, recipes and blends***

During Q'3 of 2011 activities aimed at securing cigarette manufacturing with tobaccos and reconstituted tobacco, and technological developments for expansion of cut tobacco, design of cigarettes for export, production tests of self extinguishing cigarettes, as well as actualization of the technological documentation, were carried out:

Provision of tobaccos and reconstituted tobacco for the production.

1. Visual assessment and selection of selected samples of leafs Virginia, crop 2011, origin Africa, were carried out. Taste evaluations and chemical analyses of selected samples of leafs Virginia, origin Zimbabwe, Zambia, Malawi, and Uganda, were carried out as well. A specification of the approved quality groups of tobacco and a schedule for supply of tobaccos by classes and suppliers were drawn up with the aim to cover the needs of cigarettes manufacturing for the years of 2011 and 2012.
2. Expert evaluations and analyses of regular samples of reconstituted tobacco, quality AZ6N of "LTR", France, were made.

Technological developments

1. Implementation of a technology for expansion of cigarette blends cut tobacco at Sofia-BT AD.

Trial tests for drying and expansion of cigarette blends cut tobacco, continuous production, were conducted at Sofia-BT AD. Expert assessments, taste evaluations, physical and chemical analyses of the blend and of cigarettes manufactured through adding expanded cut tobacco were carried out. The recipes of all current cigarette brands produced at 100% cut tobacco expansion were updated and customised. An assessment of

the effectiveness of the process of expansion of tobacco and of the quality characteristics and indicators of cigarette brands manufactured by Sofia-BT AD was made. The main tobacco blends for production of cigarettes of Virginia and American blend were commissioned into regular production for processing through expansion.

2. Dossiers of all the cigarettes brands produced by Sofia-BT AD for clients of Bulgartabac-Holding AD and for export were approved.

3. The program for carrying out production tests of self extinguishing cigarettes manufactured with LIP cigarette paper was completed. A complex quality evaluation was made – chemical indicators and taste evaluation of cigarettes manufactured with LIP cigarette papers supplied by various suppliers. A specification of the approved qualities of LIP cigarette paper was prepared by specific formats, blend types, and cigarette brands. In September, Sofia-BT AD and Blagoevgrad-BT AD commenced the production of self extinguishing cigarettes – brands intended for sale in the domestic market and for export to the markets of the EU Member States. Tests of cigarettes under the ASTM method were carried out with the purpose to assess their compliance with the requirement for extinguishment. The reported results were in line with the normative requirements of the European Standard EN 16156:2010.

Cigarettes

Tobacco blends were developed and production tests were carried out of cigarettes 84 mm and Slims 97 mm for export, manufactured upon requests of Bulgartabac-Holding AD's clients. Production samples of varieties of cigarettes Slims, 97 mm, hard octagonal box, Virginia blend, and cigarettes 84 mm, hard pack, American blend, to be manufactured by Blagoevgrad-BT AD, were prepared.

The developed cigarette blends are of smoking and taste characteristics approved for the export markets; they have been produced in varieties with different levels of smoke and taste indicators, and have been approved by the Holding's clients.

➤ *Liquidation and insolvency procedures of group companies*

Haskovo Tabac AD (in liquidation)

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

By a decision of the extraordinary General Meeting of Shareholders of the company held on 21 December 2007, the term for completing the company's liquidation was extended by 18 (eighteen) months as of the date of expiry of the term set by a decision of the extraordinary General Meeting of Shareholders of the company held on 15 March 2006.

By a decision of the regular General Meeting of Shareholders held on 26 June 2009, it was agreed that the company's liquidation deadline should be extended by 12 (twelve) months as of 11 July 2009 - the date of expiry of the term set by a decision of the extraordinary General Meeting of Shareholders held on 21 December 2007.

By a decision of the regular General Meeting of Shareholders held on 23 June 2010, it was agreed that the company's liquidation deadline should be extended by 12 (twelve) months as of 11 July 2010 - the date of expiry of the term set by a decision of the regular General Meeting of Shareholders held on 26 June 2009.

By a decision of the regular General Meeting of Shareholders of the company held on 21 June 2011, it was decided that the term for completion of the liquidation of Haskovo Tabac AD, in liquidation, to be extended by 6 /six/ months as of 11 July 2011 – the date of expiry of the term decided upon by a decision of the regular General Meeting of Shareholders held on 23 June 2010.

Asenovgrad-Tabac AD /in liquidation/

By a decision of the extraordinary General Meeting of Asenovgrad-Tabac AD, 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.

Dulovo Tabac AD /in insolvency/

By a decision No 32 dated 22 January 2010 of the Silistra District Court, on the grounds of Art. 632, para. 1 with reference to Art. 710 of the Commercial Act, 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. By a decision dated 28 April 2010 of the Varna Appellate Court, the decision of the Silistra District Court dated 22 January 2010 was repealed in its part determining the initial date of insolvency of „Dulovo Tabac” AD on the grounds of Art. 630, para. 1, i. 1 of the Commercial Act, and instead, a new date of insolvency of „Dulovo Tabac” AD 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 well as an appeal by CD TAB EOOD for cessation of the proceedings.

3. Financial result of Bulgartabac Group as of 30 September 2011

I. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1.01- 30.09.2011	1.01- 30.09.2010	Change	
	BGN'000	BGN'000	BGN'000	%
Sales revenue	262,698	218,879	43,819	20.02
Cost of products and services sold	(204,893)	(159,597)	45,296	28.38
	57,805	59,282	(1,477)	(2.49)
Write down of inventories	-	(238)	(238)	(100.00)
Cost of production below the normal capacity	(3,827)	(2,106)	1,721	81.72
Gross profit (margin)	53,978	56,938	(2,960)	(5.20)
Other operating income / (losses), net	2,300	(247)	2,547	
Distribution and realisation expenses	(10,014)	(8,136)	1,878	23.08
Administrative expenses	(22,597)	(20,660)	1,937	9.38
Other operating expenses	(12,008)	(10,372)	1,636	15.77
Operating profit	11,659	17,523	(5,864)	(33.46)
Finance income	5,195	5,177	18	0.35
Finance costs	(7,329)	(2,455)	4,874	198.53

Operating profit after finance items	9,525	20,245	(10,720)	(52.95)
Expenses on stopped production activities in subsidiaries	(162)	(173)	(11)	(6.36)
Profit before income tax	9,363	20,072	(10,709)	(53.35)
Income tax expense	(936)	(1,891)	(955)	(50.50)
Net profit for the period	8,427	18,181	(9,754)	(53.65)
Attributable to:				
Equity owners of the parent company	7,244	14,859	(7,615)	(51.25)
Non-controlling interest	1,183	3,322	(2,139)	(64.39)

For the period from 1 January to 30 September 2011, the financial result of Bulgartabac Group is a profit amounting to BGN 8,427 thousand, including – attributable to the equity owners of the parent company – BGN 7,244 thousand and to non-controlling interest – BGN 1,183 thousand.

If compared with the same period of 2010, the financial result has decreased by BGN 9,754 thousand (53.65%), including a decrease for both the owners of the equity of the parent company by BGN 7,615 thousand (51.25%) and the non-controlling interest by BGN 2,139 thousand (64.39%).

The gross profit of Bulgartabac Group for the period from 1 January to 30 September 2011 amounted to BGN 53,978 thousand; if compared with the same period of 2010, the increase is by BGN 2,960 thousand (5.20%). The increase in gross profit for the current period, compensated, is due mainly to:

- **the increase in net sales revenue** by BGN 43,819 thousand (20.02%) – mostly affected by the compensated influence of:
 - **domestic market:** the increase in sales of tobacco products (cigarettes) by BGN 12,500 thousand (30.19%); increase in sales of tobacco by BGN 1,927 thousand (653.22%); decrease in revenue from ROY tobacco by BGN 367 thousand (91.29%), and decrease in revenue from sales of expanded stems by BGN 61 thousand (15.29%);
 - **foreign market:** the increase in sales of tobacco products (cigarettes) by BGN 30,903 thousand (18.21%), increase in sales of expanded stems by BGN 241 thousand (124.87%), decrease in sales of tobacco by BGN 1,233 thousand (21.14%), and decrease in sales of filter rods by BGN 78 thousand (63.41%).
- **the increase in cost of goods and services sold** during the period under review is by BGN 45,296 thousand (28.38%). The higher pace of increase (28.38%) compared with the pace of increase in net revenue (20.02%) leads to decreasing the gross financial result for the current period.

The following have also affected the change in gross profit for the period from 1 January to 30 September 2011 vs. the same period of 2010:

- **the decrease in costs of impairment of inventories** results from the fact that no impairment of materials has been reported for the current period, while for the previous period (from 1 January to 30 September 2010) the reported costs of impairment amounted to BGN 238 thousand;
- **the increase in costs of production below normal capacity during the current period compared with the previous one** is by BGN 1,721 thousand (81.72%).

The operating profit of Bulgartabac Group for the period from 1 January to 30 September 2011 amounts to BGN 11,659 thousand. The decrease in operating financial result for the current period compared with the previous one is by BGN 5,864 thousand (33.46%), which is due, compensated, to:

- the decrease in **gross profit**;
- the increase in the amount of **other operating profits / (losses), net**, by BGN 2,547 thousand is mainly due to:
 - the net change (increase) by BGN 2,269 thousand in foreign exchange differences (due to changes in the exchange rates) of cash, trade receivables and payables, incl. decrease in foreign exchange gains related to trade receivables and payables by BGN 205 thousand and decrease in foreign exchange losses by BGN 2,474 thousand related to trade receivables and payables;
 - the increase in gain on sales of materials by BGN 440 thousand;
 - the increase in gain on sales of services by BGN 221 thousand;
 - the increase in revenue from liabilities written off by BGN 38 thousand;
 - the increase in revenue from insurance indemnities by BGN 24 thousand;
 - the decrease in income from interest and liquidated damages under contracts by BGN 144 thousand;
 - the decrease in gains on sale of fixed assets by BGN 129 thousand;
 - the decrease in interest on current accounts by BGN 103 thousand, and
 - the decrease in rental income by BGN 45 thousand.
- the increase in **distribution and selling expenses** by BGN 1,878 thousand (23.08%) is mainly due to:
 - the increase in advertising costs by BGN 1,110 thousand,
 - the increase in costs of salaries and wages by BGN 316 thousand,
 - the increase in costs of commissions by BGN 225 thousand,
 - the increase in expenses on security by BGN 129 thousand, and
 - the increase in social security costs by BGN 75 thousand,
 - the increase in costs of transportation by BGN 69 thousand,
 - the increase in customs and other charges by BGN 48 thousand;
 - the increase in marketing expenses by BGN 24 thousand,
 - the decrease in costs of depreciation/amortisation by BGN 74 thousand,
 - the decrease as a result of refunded in excess write downs of sales receivables by BGN 55 thousand.
- the increase in **administrative expenses** by BGN 1,937 thousand (9.38%) is mainly due to:
 - the increase in costs of salaries and wages by BGN 476 thousand;
 - the increase in business trip expenses by BGN 406 thousand;
 - the increase in costs of training and qualification by 215 thousand;
 - the increase in costs of trade marks maintenance and registration by BGN 194 thousand;
 - the increase in costs of repairs and maintenance by BGN 86 thousand;
 - the increase in costs of social security by BGN 81 thousand;
 - the increase in expenses on taxes and charges by BGN 76 thousand;
 - the increase in costs of materials and consumables by BGN 72 thousand;
 - the increase in communication costs by BGN 26 thousand.
- the increase in **other operating expenses** by BGN 1,636 thousand (15.77%), is mainly due to:
 - the increase in costs of social activity by BGN ,772 thousand;

- the increase in donations by BGN 149 thousand;
- the decrease in expenses on principal under deeds issued by NSSI by BGN 171 thousand;
- the decrease in VAT expenses in the event of scrap, sale at loss, unrecognised input VAT by BGN 45 thousand;
- the decrease in interest expenses for delays on payables to the State budget by BGN 42 thousand; and
- the decrease in costs of unrecognised excise duties by BGN 39 thousand.

The operating profit after financial items of Bulgartabac Group for the period from 1 January to 30 September 2011 amounts to BGN 9,525 thousand. If compared with the same period of 2010, the decrease in the financial result is by BGN 10,720 thousand (52.95%), which is due to the compensated effect of:

- **the decrease in the operating financial result for the period from 1 January to 30 September 2011, and**
- the increase in finance income by BGN 18 thousand compared with the previous period (0.35%) is mainly due to:
 - the increase in foreign currency gains by BGN 1,365 thousand;
 - the increase in income from reversed impairment of interest and liquidated damages on loan contracts by BGN 1 thousand;
 - the decrease in interest income on term deposits by BGN 1,303 thousand, and
 - the decrease in income from and liquidated damages on loans by BGN 45 thousand.
- the increase in finance costs compared with the previous period by BGN 4,874 thousand (198.53%) is mainly due to:
 - the increase in foreign currency losses by BGN 5,471 thousand;
 - the decrease in interest costs on bank loans received by BGN 362 thousand;
 - the decrease in expenses on bank charges on loans and guarantees by BGN 201 thousand, and
 - the decrease in impairment of interest and liquidated damages on loans granted by BGN 34 thousand.

The profit before income taxes of Bulgartabac Group for the period from 1 January to 30 September 2011 amounts to BGN 9,363 thousand. The decrease in financial result vs. that for the same period of 2010 is by BGN 10,709 thousand (53.35%) and is mainly due to:

- **the decrease in earned operating profit after financial items for the period from 1 January to 30 September 2011, and**
- the decrease in costs of discontinued production activities by BGN 11 thousand (6.36%).

The net profit for the period from 1 January to 30 September 2011 amounts to BGN 8,427 thousand, the decrease in net profit vs. that for the same period of 2010 is by BGN 9,754 thousand (53.65%).

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30.09.2011	31.12.2010	Change	
	BGN '000	BGN '000	BGN '000	%
ASSETS				
Non-current assets				
Property, plant and equipment, incl.	228,309	212,350	15,959	7.52
1. Land	13,690	13,690	-	0.00
2. Buildings	63,692	65,669	(1,977)	(3.01)
3. Plant	104,939	100,313	4,626	4.61
4. Equipment	4,733	4,984	(251)	(5.04)
5. Motor vehicles	1,348	1,280	68	5.31
6. Fixtures & Fittings	1,505	1,372	133	9.69
7. FTA in progress	37,276	23,825	13,451	56.46
8. Other assets	1,126	1,217	(91)	(7.48)
Intangible assets	224	163	61	37.42
Investments available for sale	320	320	-	0.00
Deferred tax assets	285	460	(175)	(38.04)
Other non-current assets	1,143	1,218	(75)	(6.16)
	230,281	214,511	15,770	7.35
Current assets				
Inventories	127,986	132,351	(4,365)	(3.30)
Receivables from clients and suppliers, incl.	30,983	25,523	5,460	21.39
1. Receivables from clients	29,164	22,913	6,251	27.28
2. Advances to suppliers	1,819	2,610	(791)	(30.31)
Other current assets, incl.	8,583	4,003	4,580	114.41
1. Taxes refundable	5,863	3,073	2,790	90.79
2. Court and awarded receivables	469	194	275	141.75
3. Other receivables	1,211	308	903	293.18
4. Prepayments	1,040	428	612	142.99
Cash and cash equivalents	110,035	183,595	(73,560)	(40.07)
	277,587	345,472	(67,885)	(19.65)
TOTAL ASSETS	507,868	559,983	(52,115)	(9.31)

EQUITY AND LIABILITIES

Capital attributable to the owners of the equity of the parent company

Share capital	7,367	7,367	-	0.00
Reserves	108,624	106,815	1,809	1.69
Retained earnings	166,194	213,759	(47,565)	(22.25)
	282,185	327,941	(45,756)	(13.95)
Non-controlling interest	40,357	45,301	(4,944)	(10.91)
Total equity	322,542	373,242	(50,700)	(13.58)

LIABILITIES

Non-current liabilities

Long-term bank loans	14,624	6,782	7,842	115.63
Deferred tax liabilities	3,531	3,531	-	0.00
Retirement benefit obligations	17,190	16,838	352	2.09
	35,345	27,151	8,194	30.18

Current liabilities

Payables to suppliers and clients	46,614	38,277	8,337	21.78
Short-term bank loans	1,300	6,486	(5,186)	(79.96)
Short-term portion of long-term bank loans	7,091	4,054	3,037	74.91
Tax liabilities	81,923	98,402	(16,479)	(16.75)
Payables to personnel	6,983	8,128	(1,145)	(14.09)
Payables to social security	1,911	1,907	4	0.21
Other current liabilities	4,159	2,336	1,823	78.04
	149,981	159,590	(9,609)	(6.02)
TOTAL LIABILITIES	185,326	186,741	(1,415)	(0.76)
TOTAL EQUITY AND LIABILITIES	507,868	559,983	(52,115)	(9.31)

At 30 September 2011, the balance sheet figure of Bulgartabac Group is BGN 507,868 thousand and if compared with the figure as of 31 December 2010 it has decreased by BGN 52,115 thousand (9.31%).

The change in the amounts of Group's assets is due to the increase in non-current assets by BGN 15,770 thousand (7.35%), as also to the decrease in current assets by BGN 67,885 thousand (19.65%).

The increase in non-current assets is mainly due to the increase of carrying amounts of items of **property, plant and equipment** by BGN 15,959 thousand (7.52%). This increase is affected by the compensated effect of the following factors:

- the increase due to newly acquired assets and FTA in progress – BGN 27,201 thousand;
- the decrease due to depreciation accrued for the period from 1 January 2011 to 30 September 2011 – BGN 11,132 thousand and assets derecognised – BGN 110 thousand.

The increase in **intangible assets** by BGN 61 thousand (37.42%) is due to the compensated effect of:

- the increase due to newly acquired intangible assets – BGN 110 thousand
- the decrease due to depreciation accrued for the period from 01 January to 30 September 2011 – BGN 49 thousand.

Deferred tax assets have decreased by BGN 175 thousand.

Other non-current assets have decreased by BGN 75 thousand (6.16%).

The decrease in current assets is mainly due to the compensated effect of:

- the decrease in **cash and cash equivalents** by BGN 73,560 thousand (40.07%);
- the decrease in carrying amounts of **inventories** – BGN 4,365 thousand (3.30%);
- the increase in carrying amounts of **receivables of clients and suppliers** – BGN 5,460 thousand (21.39%)
- the increase in **other current assets** – BGN 4,580 thousand (114.41%).

The changes in equity and liabilities of the Group are due to the changes in the amounts of equity – a decrease by BGN 50,700 thousand (13.58%) and decrease in liabilities by BGN 1,415 thousand (0.76%). The change in the Group's liabilities is due to both the increase in **non-current liabilities** by BGN 8,194 thousand (30.18%) and the decrease in **current liabilities** by BGN 9,609 thousand (6.02%).

The increase in **non-current liabilities** is due to the effect of:

- the increase in carrying amounts of: **long-term bank loans** – by BGN 7,842 thousand (115.63%) and **long-term retirement benefit obligations** by BGN 352 thousand (2.09%);

The decrease in **current liabilities** is due to the compensated effect of :

- the decrease in carrying amounts of: **short-term portion of long-term bank loans** – by BGN 5,186 thousand (79.96%); **tax liabilities** by BGN 16,479 thousand (16.75%); and **payables to personnel** by BGN 1,145 thousand (14.09%);
- the increase in carrying amounts of: **payables to suppliers and clients** by BGN 8,337 thousand (21.78%), **short-term portion of long-term bank loans** by BGN 3,037 thousand (74.91%); **payables to social security** by BGN 4 thousand (0.21%), and **other current liabilities** by BGN 1,823 thousand (78.04%).

The decrease in **equity** is due to:

- the lower carrying amount of **equity attributable to the equity owners of the parent company** by BGN 45,756 thousand (13.95%) – arising out of the decrease in **retained earnings** by BGN 47,656 thousand and the increase in **reserves** by BGN 1,809 thousand;

The decrease in **retained earnings** is due to the compensated effects of profit distribution for dividends – ↓ BGN 52,983 thousand, profit distribution for reserves – ↓ BGN 2,184 thousand, profit distribution for tantiemes – ↓ BGN 17 thousand, the current financial result – ↑ BGN 7,244 thousand, and loss cover on account of reserves – ↑ 255 thousand, and transfer to accumulated profits upon withdrawal from use of items of property, plant and equipment – ↑ BGN 120 thousand.

The increase in **reserves** by BGN 1,809 thousand is due to the compensated effect of profit distribution for reserves – ↑ BGN 2,184 thousand, loss cover on account of reserves – ↓ BGN 255 thousand, and the transfer to accumulated profits upon withdrawal from use of items of property, plant and equipment – ↓ BGN 120 thousand.

- the decreased carrying amount of **non-controlling interest** by BGN 4,944 thousand (10.91%) is primarily a result of the compensated effect of profit distribution for dividends ↓ 6,126 thousand, profit

distribution for tantiemmes – ↓ BGN 1 thousand, and the current financial result attributable to non-controlling interest– ↑ BGN 1,183 thousand.

4. Major risks and uncertainties faced by Bulgartabac group companies in 2011

Analysis of terms and conditions of the operating environment of Bulgartabac-Holding AD:

Political factors

- Strong political will for the privatization of Bulgartabac-Holding AD;
- Legislative changes concerning the manufacturing, storage and sales of excise goods on the territory of the country;
- Presidential and local elections in 2011;
- Legislative measures for restriction of tobacco smoking and advertising of cigarettes;
- Ambition of the Government to apply anti-crisis measures and incentives that should lead to positive trade balance of the country already during 2011;
- Political changes in some Arab countries, which have brought about an increase in oil prices in the beginning of 2011.

Economic factors

- Gradual transition of the Bulgarian economy to a model of development, in which export is the main growth factor;
- Increased excise rates of cigarettes (during 2011 only for the sizes that are not manufactured by Bulgartabac Group) and of roll-your-own tobacco - from BGN 100/kg to BGN 130/kg (2011);
- Considerable share of sales of cigarettes without excise stamp or with foreign excise stamp in the country;
- Expected increase in prices of basic raw materials due to the increase in oil prices;
- Increased sensitivity of the cash flows of the cigarette manufacturing companies of Bulgartabac Group due to the fluctuations of the USD exchange rate against that of the other world's currencies.

Social Factors

- Worldwide social and health policy of fighting tobacco smoking;
- Restrictive law on smoking in public places and restaurants;
- Drop in employment, although with subsiding rate of reduction, due to the continuing process of restructuring of the companies in the country;
- Binding the policy on income growth with the growth of labour productivity and the potential of the economy and the budget of the country;
- Potential threat of social tension with the progress of the process of privatization and restructuring of Bulgartabac-Holding AD;
- Need to cut down expenses, including personnel expenses, which also lead to the respective negative social consequences.

Technological factors

- Legislative restrictions on advertising and marketing of tobacco products, leading to intensification of the competition among manufacturers in the area of quality, sizes and outer appearance of the products and, respectively, to introduction of still newer technologies;
- Production of self extinguishing cigarettes (LIP paper) for the brands to be sold on the territory of EU starting as of 17 November 2011;

- Bulgartabac Group companies have modern technological equipment at their disposal which guarantees the manufacturing of high quality competitive products and enables them to develop and update their product ranges, in conformity with market trends;
- Consistent policy regarding the outer appearance of the products of Bulgartabac Group.

Risk factors specific to the Growing and Buying-out of Raw Tobacco Sector

The membership of Bulgaria in the EU has led to dynamic changes in the development of the Raw Tobacco Growing Branch in the country and the legislative mechanisms of tobacco buy-up and processing.

1. Starting with crop 2010 the minimum purchase prices of raw tobacco, earlier being fixed each year by the Council of Ministers, were eliminated. Tobaccos of the crop were bought-up at market prices determined by each company licensed to conduct tobacco processing.

2. By issue 19 of the State Gazette of 08 March 2011 Articles 11, 16 and 33 of the Tobacco and Tobacco Products Act were repealed as also the texts of the Act related to the repealed articles. The main changes are as follows:

- liberalization of the raw tobacco market – this will lead to significant changes in the organization of the process of buying-up of this raw material with many “small” buyers that do not have permits for tobacco processing penetrating the market. This change is forecasted to have an insignificant impact on the tobacco processing companies operating in the country;
- the obligation to carry out the tobacco processing within the territory of the country was eliminated;
- the imperative regulation of the Tobacco and Tobacco Products Act for conclusion of contracts between the tobacco growers and the purchasers of raw tobacco was abolished.

The manufacturers of large leaf tobacco reacted first to the change in legislation and reduced their volumes of production by about 46% of crop 2010 compared with the volumes of crop 2009. The production of oriental tobacco remained almost the same. For crop 2011, studies show that there is a decrease in the manufactured quantities of variety groups Basma and Kaba Koulak, relative preservation of the manufactured quantities of variety group Burley, and an increase in the manufactured quantities of Virginia tobacco compared with the quantities of tobacco of crop 2010. The reduced volume of production in the country requires the implementation of flexible policies in the process of buying-out Bulgarian tobaccos, crop 2011, with the aim to achieve the volumes planned.

Risks in the area of tobacco trade

In 2011 as well, Bulgartabac-Holding AD continued to implement actively and carry out a flexible trade policy of offering and selling Bulgarian tobaccos on the international market, as well as supplying continuously cigarette production with the required raw tobacco.

Financial risk management

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, risk of changes in fair value, and price risk), credit risk, liquidity risk, and risk of interest-bearing cash flows. The general risk management is focused on the difficulties of forecasting the financial markets and minimizing the potential negative effects that might affect the financial results and position of the company. The financial risks are currently identified, measured and monitored through various control mechanisms introduced in order to establish adequate prices for the services, provided by the company, 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 the Group is currently executed by the management and the respective structural units, depending on the type and specific features of various risks to which the company is exposed in its operations, and respectively by the respective structural units of the parent company – the Group as a whole.

Financial risk management is described in detail in the notes to the interim financial statements.

On the grounds of Art. 100o, para. 7 of POSA we hereby notify that the interim consolidated financial statements for the year ending 30 September 2011 of Bulgartabac Group have neither been certified nor audited.

Angel Dimitrov

Executive Director

of Bulgartabac-Holding AD

Ventsislav Cholakov

Executive Director

of Bulgartabac-Holding AD