



Translation from Bulgarian

A N N U A L R E P O R T

of the Board of Directors

on the activity of

Bulgartabac-Holding AD

in 2011



1. Corporate information

The joint stock company Bulgartabac-Holding, or Bulgartabac-Holding AD, was incorporated on 10 November 1993 by an Order No 115 of the Council of Ministers. The company is not limited by time.

Registered address and address of management – Sofia 1000, 62 Graf Ignatiev Street
telephone: +0035929306803/805; fax: +0035929306830/831
e-mail address: info@bulgartabac.bg
web-site: www.bulgartabac.bg

Bulgartabac-Holding AD was registered in the Trade Register at the Registry Agency under UIC 831636680.

Bulgartabac-Holding AD is a public company entered into the Issuers' Register kept by the Financial Supervision Commission.

Data of the emission:
Code at BSE: 57B
ISIN code: BG 11BUSOGT14

Bulgartabac-Holding AD is a member of the economic group "Bulgartabac", which at 31 December 2011 included a holding company and 8 subsidiaries – joint stock companies operating in the country. The holding holds shares in its subsidiaries ranging between 78.22% and 100.00% of the capital. Bulgartabac-Holding AD exercises control over 7 of these companies, and in 1 of them it does not hold the power to manage its financial and operating policies due to the fact that the entity has become an object of judicial control (declared in insolvency proceedings).

2. Development of the activity and status of the company in 2011, together with a description of the main risks faced by the company

2.1. Procedure for privatisation of Bulgartabac-Holding AD

In the fourth quarter of 2011 there was a change in the persons exercising control over Bulgartabac-Holding AD as a result of the completed procedure for privatisation of the State participation in the company's capital.

As a result of the publicly announced tender, in pursuance of a decision № 3219-P dated 18 April 2011 (promulgated in the State Gazette, issue 34 of 10 May 2011) of the Agency of Privatisation and Post Privatisation Control (APPC), a privatisation contract between APPC and BT Invest GmbH, Austria, was signed on 12 September 2011 for the privatisation of 79.83% of the capital of Bulgartabac-Holding AD, Sofia.

On 14 October 2011, APPC, in its capacity of a seller, transferred to BT Invest GmbH, Austria, 5,881,380 shares, or 79.83% of the capital of Bulgartabac-Holding AD. The transaction was registered with Central Depository on 14 October 2011.



Herein below we will describe the key milestones in the privatisation procedure of Bulgartabac-Holding AD.

By a decision No 1646-A of 18 December 2009 (published in “Pari” newspaper of 21.12.2009), an open tender procedure was opened by the Privatisation Agency for the selection of a consultant on the privatisation of Bulgartabac-Holding AD. The consultant would be entrusted with the entire consulting process and with the task to provide support to the PA in connection with the preparation and execution of the privatisation deal for the company in compliance with the privatisation method selected and the legislation in force. By the expiration of the deadline on 1 February 2010, 4 companies had submitted their bids: Citigroup Global Markets Limited, the consortium KBC Securities and Tokushev & Co., Raiffeisen Investments – Kamburov and Renaissance Securities Ltd. Upon examination of the submitted bids, the Agency of Privatisation and Post Privatisation Control had taken a decision to ask the participants to submit additional information and clarifications on their bids in the tender. Upon submission of the required supplements and their examination, the Tender Committee would have to prepare a report on which basis APPC should come out with a decision ranking the bidders in the tender. On 25 February 2010 APPC announced that Citigroup Global Markets Limited was selected to be the consultant for the privatisation of Bulgartabac-Holding AD.

On 13 September 2010 APPC published information that the Supervisory Board of the Agency had approved the contract for entrusting Citigroup Global Markets Limited with the implementation of Bulgartabac-Holding AD’s privatisation. Pursuant to the Contract, on 18 November 2010 the consultant deposited to APPC an information memorandum, legal analysis and privatisation evaluation of Bulgartabac-Holding AD.

By a decision No. 1490 of 17 February 2009, the Privatisation Agency informed Bulgartabac-Holding AD that it was forbidden to perform disposal transactions with long-term assets of the Company, to conclude contracts for the acquisition of shares, 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.

By a letter of APPC dated 23 November 2010, Bulgartabac-Holding AD was informed that the prohibition under Art. 28, Par. 1 of the PPPCA for conclusion of transactions and performance of activities should apply also to its subsidiaries, except for those that were undergoing liquidation or insolvency proceedings.

By a decision № 3219-P dated 18 April 2011 (promulgated in the State Gazette, issue 34 of 10 May 2011), on the grounds of Art. 1, Par. 2, Art. 3, Par. 1, Art. 4, Par.1, and Art. 32, Par. 1, i. 3 of the Privatisation and Post Privatisation Act, Ar. 2, Par. 1, i. 1, Art. 3, Par.3, Art. 5, Art. 7, and Art. 10 of the Ordinance on the Tenders and Competitions, and a protocol decision No 777 dated 18 April 2011 of the Executive Board, the Privatisation and Post Privatisation Agency determined the method for sale of 5, 881,380 shares being approximately 79.83 % of the capital of Bulgartabac-Holding AD, Sofia – a publicly announced tender to be held in one stage. The decision specified also the preliminary qualification requirements to be met by the interested parties – participants in the tender, as also the main procedural terms. Pursuant to this decision, the participants in the tender were required to submit their bids by the 110 day as of the date of promulgation of the decision in the State Gazette (29 August 2011).

Within the term for purchasing tender documents - 09 June 2011, such have been purchased by ten companies: Djingov, Gouginski, Kyutchukov & Velichkov AD, Kamburov & Partners AD, Kings Tobacco EAD, Plovdiv, British American Tobacco Ltd, London, Japan Tobacco International S.A., Switzerland, CB Family Office Services GmbH, Austria, BT Invest GmbH, Austria, Phillip Morris Bulgaria EOOD, Science Capital Management LLC, USA, and KT&G Corporation, Korea.



Within the term for submission of documents for admission – 04 July 2011, out of all companies which have bought tender documents, three companies submitted documents in compliance with the pre-qualification requirements of the tender - CB Family Office Services GmbH, Austria, BT Invest GmbH, Austria, and British American Tobacco Ltd, London.

On 14 July, the Privatisation and Post-privatisation Control Agency allowed BT Invest GmbH, Austria, to continue its participation in the next stages of the procedure, and with regard to the documents filed by British American (Holdings) Tobacco Ltd, London, and CB Family Office Services GmbH, Austria, the Agency required the applicants, by 19 July, to provide clarifications and additional documents in respect with documents already filed by them in compliance with the pre-qualification requirements.

After reviewing the additional information filed to the compliance documents, the Privatisation and Post-privatisation Control Agency allowed British American (Holdings) Tobacco Ltd, London, and CB Family Office Services GmbH, Austria, to continue their participation in the next stages of the procedure.

By the expiry of the deadline – 25 July 2011, two companies both the information memorandum for the sale of Bulgartabac-Holding AD, Sofia, namely British American (Holdings) Tobacco Ltd, London, and BT Invest GmbH, Austria. The third company, which was allowed to this stage of tender procedure - CB Family Office Services GmbH, Austria, dropped out of further participation.

On 1 August, APPC announced that a formal letter was received from British American (Holdings) Tobacco Ltd, stating that the company took a decision to discontinue its further participation in the tender procedure. The arguments laid down in the letter included “reasons of commercial and strategic nature”.

The deadline for making the required deposit and filing a binding offer by the only applicant who had left, and namely BT Invest GmbH, Austria, expired on 29 August 2011, at 3 p.m.

On 29 August 2011, the binding offer was opened by APPC, the main parameters of the offer being as follows:

- Amount of the proposed purchase price – EUR 100,100,000;
- Proposal to buy-out minimum quantities of Bulgarian tobacco for a mandatory term of five years - 5 000 tones in each one of the 5 years;
- Investment proposal for a 2-year term: year 1 – BGN 2 million, and year 2 – BGN 5 million.

On 31 August 2011, APPC designated BT Invest GmbH, Austria, as the participant that has won the tender for the privatisation of 79.83% of the capital of Bulgartabac-Holding AD. The transaction was approved by the Supervisory Board of APPC and on 12 September 2011 the contract between APPC and BT Invest GmbH, Austria, was signed. The contract price is EUR 100 100 000 and is to be paid via a bank transfer into the account of APPC, as follows – 20% on the date of signature of the contract and the remaining 80% - prior to the completion of the transaction. The final transfer of the property right over the shares, subject to sale, will be made upon closing the deal, after the remaining amount of the purchase price is paid and the permission of the Commission on Protection of Competition is obtained.

On 27 September, the Commission on Protection of Competition approved the concentration via acquisition of direct sole control by BT Invest GmbH, Vienna, Austria, over Bulgartabac-Holding AD, Sofia, and through it, of indirect control over the Holding’s subsidiaries. The Commission enacted the immediate implementation of the decision.

Holding 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



During the fourth quarter of 2011, extraordinary General Meetings of Shareholders of Bulgartabac-Holding AD (01 November 2011) and of the following its subsidiaries were held: Sofia-BT AD (21 November 2011), Blagoevgrad-BT AD (23 November 2011), Pleven-Bulgartabac AD (22 November 2011), and Bulgartabac-Trading EAD (01 December 2011). The key agenda items of the above extraordinary GMS included the replacement of the members of the Boards of Directors of these companies. The new members of the Boards of Directors were duly registered with the Trade Register at the Registry Agency.

- At the extraordinary GMS of **Bulgartabac-Holding AD**, held on 01 November 2011, Alexander Manolev, Georgi Kostov, and Ivan Bilarev were discharged as members of the Board of Directors of the company. As new members of the Board of Directors of the company were elected Alexander Romanov, Yavor Draganov, Angel Dimitrov, Vencislav Cholakov, and Miglena Hristova, with a 3-year mandate. The company is managed and represented jointly by the two Executive Directors, Angel Dimitrov and Vencislav Cholakov. Alexander Romanov was elected as Chairman and Yavor Draganov as Vice Chairman of the Board of Directors. On 18 November 2011, Ivan Bilarev was registered with the Trade Register at the Registry Agency as Procurator who is able to represent the company jointly with either one of the Executive Directors.
- At the extraordinary GMS of **Sofia-BT AD**, held on 21 November 2011, Irena Valeva, Rumen Porozhanov and Krasimir Petrov were discharged as members of the Board of Directors. As new members of the Board of Directors of the company were elected Angel Dimitrov, Vencislav Cholakov, and Lilyana Dinkova, with a 3-year mandate. The company is managed and represented by the Executive Director Lilyana Dinkova. Angel Dimitrov was elected as Chairman and Vencislav Cholakov as Vice Chairman of the Board of Directors.
- At the extraordinary GMS of **Pleven-Bulgartabac AD**, held on 22 November 2011, Angel Blazhev, Diana Nikolova and Vladimir Tsvetanov were discharged as members of the Board of Directors. As new members of the Board of Directors of the company were elected Angel Dimitrov, Vencislav Cholakov, and Ivo Koychev, with a 3-year mandate. The company is managed and represented by the Executive Director Ivo Koychev. Vencislav Cholakov was elected as Chairman and Angel Dimitrov as Vice Chairman of the Board of Directors.
- At the extraordinary GMS of **Blagoevgrad-BT AD**, held on 23 November 2011, Emil Sandev, Yasen Popvasilev, and Petar Papucharov were discharged as members of the Board of Directors. As new members of the Board of Directors of the company were elected Vencislav Cholakov, Angel Dimitrov, and Georgi Kostov, with a 3-year mandate. The company is managed and represented by the Executive Director Georgi Kostov. Vencislav Cholakov was elected as Chairman and Angel Dimitrov as Vice Chairman of the Board of Directors.
- On 01 December 2011, without attendance and with the consent of all members of the Board of Directors of Bulgartabac-Holding AD, in its capacity of a sole owner of the capital of Bulgartabac-Trading EAD, resolutions were passed regarding **Bulgartabac-Trading EAD**: changes in the Statute, it has been decided that the Board of Directors shall comprise 5 members; Ekaterina Hristova, Mariana Kancheva, and Meglena Madjarova were discharged as members of the Board of Directors; as new members of the Board of Directors of the company were elected Ivan Bilarev, Vencislav Cholakov, Angel Dimitrov, Boris Zahariev, and Miglena Hristova, with a 3-year mandate. The company is managed and represented jointly by the two Executive Directors Ivan Bilarev and Boris Zahariev. Vencislav Cholakov was elected as Chairman and Angel Dimitrov as Vice Chairman of the Board of Directors.



2.2. Development of the activity in 2011

Pursuant to Art. 5, Par.1 of the Statute, the object of activity of Bulgartabac-Holding AD is: management of shareholdings and financial resources, foreign and domestic trade, research and development, engineering and manufacturing activities; participation in Bulgarian companies and in their management; intellectual property transactions.

The Company has an unlimited permit No. 1011 dated 21 December 2004 issued by the Council of Ministers for industrial processing of tobacco.

2.2.1. Buying-up and industrial processing of tobacco, crops 2010 and 2011

Pursuant to a Resolution of the Managing Board of Bulgartabac-Holding AD, in the fourth quarter of 2010 Bulgartabac-Holding AD replaced Pleven-BT AD as a party to the contracts with tobacco growers for manufacturing and purchasing of variety groups Basma, Kaba Koulak and Burley, crop 2010. Tobaccos contracted with the growers of sort group Virginia, crop 2010, were purchased on behalf and on account of Pleven-BT AD. Tobaccos of this crop were purchased from the end of 2010 to 31 March 2011. Variety groups Basma, Kaba Koulak and Burley were bought-up by specialists of Pleven-BT AD in accordance with the tobacco purchase service contracts concluded with Bulgartabac – Holding AD.

Tobaccos of this crop were purchased at market prices set by the tobacco growers. In view of the estimates of Bulgartabac Group of the need of Bulgarian tobacco and considering the current market situation, the purchaser prices of large leaf tobacco were increased compared with the minimal purchase prices of the same variety groups in effect for crop 2009. The purchase prices by classes for the variety group Basma, crop 2010, remained at the levels of crop 2009 in view of the existing balance at the market. The purchase prices for variety group Kaba Koulak were not changed as well.

The quantities of raw tobacco, crop 2010, purchased on behalf and on account of Bulgartabac-Holding AD in the first quarter of 2011, were as follows:

Variety group Basma	2,317 tons
Variety group Kaba Kulak	540 tons
<u>Variety group Burley</u>	<u>874 tons</u>
Total:	3 731 tons

In July, based on the service contracts concluded, Pleven-BT AD completed the industrial processing of tobacco, crop 2010, owned by Bulgartabac-Holding AD. Quantities manufactured of finished products, crop 2010, amounted to 3,544 tons.

In December 2011, the Board of Directors of Bulgartabac-Holding AD took a decision that the Holding shall replace Pleven-BT AD as a party to the contracts for manufacturing and purchasing with tobacco growers of variety groups Basma, Burley and Kaba Koulak, crop 2011.

Considering the current market situation, the purchase prices of oriental tobaccos were increased. By 31 December 2011, 364 tons, crop 2011, were bought-up.



2.2.2. Trade in tobacco

Tobacco export

Tobacco supply in 2011 was directed mainly to tobacco dealers operating 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 tobacco sold were cut down to the minimum and no tobacco deliveries were made under deferred payment conditions to markets and firms at risk.

In 2011, tobaccos were sold under contracts concluded in 2009, 2010, and 2011. The export structure for this period includes also lots of crops 2008, 2009, and 2010, as also some small quantities of crop 2006. Compared with 2010, during 2011 there was a decrease in the total volume of tobacco sold to unrelated parties in terms of quantity and amount, and respectively, a decrease in the trade representation fees payable upon tobacco export.

In 2011, the total quantity of own tobacco sold for export, Intra Community Supplies and domestic sales was 882.7 tons of tobacco amounting to BGN 4,199.3 thousand.

The total quantity of tobacco sold by Bulgartabac Group to unrelated parties during 2011 was 2,083 tons amounting to BGN 10,121.7 thousand.

In 2011, the major markets of consumption of Bulgarian oriental and large leaf tobacco, outside Bulgartabac Group, are summarized in the table below:

Export/ Intra Community Supplies and domestic sales by Bulgartabac Group, by markets	2011	
	tons	BGN'000
EU	364.8	1 354.8
Egypt	478.9	2 619.4
Indonesia	7.6	44.8
Belarus	157.0	1 709.1
Switzerland	9.9	82.6
USA	53.3	187.7
Domestic market (in the country)	1 011,5	4 123,3

Note: The biggest quantity of tobacco sold in the domestic market has been purchased by companies – tobacco dealers registered and operating in the territory of Republic of Bulgaria and therefore, they are intended for subsequent export or Intra-Community supplies

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 2011, 12,265.6 tons of raw tobacco were imported for the amount of USD 62,427 thousand and EUR 2,492 thousand. The increase in the total volume of imported tobacco in terms of quantity and price has led to a higher amount of revenue from trade



representation fees upon import of tobacco.

The operating results from the sales of own tobacco (exports, Intra Community Supplies and domestic sales to unrelated parties) by Bulgartabac-Holding AD at 31 December, accumulated as of the beginning of the year, were as follows:

Sales of own tobacco (exports, Intra Community Supplies and domestic sales to unrelated parties) by Bulgartabac-Holding AD	
<i>31.12.2011</i>	<i>31.12.2010</i>
882,7 tons	1 194,2 tons
BGN 4,199.3 thousand	BGN 7,827,6 thousand

Intra-group sales of Bulgarian tobacco

In 2011, 591 tons of Bulgarian tobaccos for the amount of BGN 3,094 thousand were purchased and sold among Bulgartabac-Holding AD and the group companies:

Total revenue from tobacco sales	
<i>31.12.2011</i>	<i>31.12.2010</i>
BGN 7,293 thousand	BGN 21,433 thousand

Fees from trade representation paid to Bulgartabac Holding AD re: Exports, Imports, Intra Community Supplies & Acquisitions and Domestic Sales to unrelated parties	
(in BGN, VAT excluded)	
<i>31.12.2011</i>	
Exports, Intra Community Supplies and domestic sales	Import and Intra Community Acquisitions of tobacco
BGN 53 thousand	BGN 1,410 thousand

Fees from trade representation paid to Bulgartabac Holding AD re: Exports, Imports, Intra Community Supplies & Acquisitions and Domestic Sales to unrelated parties in 2011 compared to 2010	
(in BGN, VAT excluded)	
<i>31.12.2011</i>	<i>31.12.2010</i>
BGN 1,463 thousand	BGN 1,052 thousand



2.2.3. Manufacturing of tobacco products

Bulgartabac-Holding AD pursues an active policy of developing and improving the existing cigarettes brands and creating new ones with modern design and high quality, compliant with the latest achievements in the sphere of cigarette manufacturing for the domestic market.

Technological policy, recipes and blends

In 2011, activities aimed at securing cigarette manufacturing with Bulgarian and imported tobaccos, tobacco stems and reconstituted tobacco were carried out. Technological developments and projects involving tobacco products and cigarette for the local market and for exports as well as actualization of the technological documentation were made:

Securing the manufacturing process with tobaccos

Based on the Business programs of the joint stock companies of Bulgartabac Group for 2011, a balance of the necessary quantities and quality groups of Bulgarian and imported tobaccos, reconstituted tobacco and tobacco stems, was drawn up in order to secure the cigarette manufacturing.

Samples of Virginia, Burley and Maryland tobaccos, crop 2011, originating from Brazil, Argentina, USA, Bangladesh, India and the region of Africa, were selected. Expert assessments, taste evaluations and chemical analyses of the tobaccos as per type, origin and class were carried out. Specification of the approved quality tobacco groups of Virginia, Burley and Maryland tobaccos pursuant to their origins and supplier companies were prepared and submitted.

A schedule of the quantities and delivery terms for the crop 2011 imported tobaccos is prepared and coordinated in order to secure the cigarette manufacturing of Blagoevgrad-BT AD and Sofia-BT AD.

In order to provide the cigarette manufacturing with crop 2011 Virginia tobacco of Bulgarian origin, an analysis and an assessment of the quality of the tobacco purchased by Pleven-BT AD were made. Based on chemical indicators and taste evaluation, specialists from Bulgartabac-Holding AD, Blagoevgrad-BT AD and Sofia-BT AD prepared and agreed with Pleven-BT AD a technological assignment /a task for processing by classes/categories/ for the processing of the crop 2011 tobacco.

At Pleven BT AD lots of the approved classes of Virginia tobacco were prepared and the necessary analyses, technological assessments and taste evaluations of the crop 2011 tobaccos were carried out.

Chemical analyses and taste evaluations of samples of reconstituted tobacco, quality AZ6N, France, were made in relation to the approval of the quality of lots supplied in 2011. A statement of the required quantities of reconstituted tobacco was drawn up with the aim to secure the cigarette production in 2012.

An evaluation of samples of Virginia tobacco stems originating from China and Burley tobacco stems originating from Argentina, crop 2011. A statement of the required quantities and a schedule for supplying the tobacco stems in 2012 were developed.

Technological developments:

- Implementation of a new technology for “drying and expansion of cut tobacco” for cigarette blends at Sofia-BT AD.

Trial tests for drying and expansion of cut tobacco for cigarette blends, 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 blend and of the smoking



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.

➤ Introduction to the market of lower ignition propensity (LIP) cigarettes

The program for carrying out production tests of self extinguishing cigarettes manufactured with new quality LIP cigarette paper was completed. The standards adopted by the EU Members States that regulate the requirements to the cigarette quality have been studied.

A complex evaluation was made – quality, chemical indicators and taste evaluation of cigarettes manufactured with LIP cigarette papers supplied by various suppliers. A specification was prepared and LIP cigarette papers that meet the requirement for extinguishment of cigarettes tested according to the new standards were approved.

In September, Sofia-BT AD and Blagoevgrad-BT AD commenced gradually the production of self extinguishing cigarettes of all brands intended for sale in the domestic market and for export to the markets of the EU Member States.

Design of cigarettes for the domestic market and for export

➤ The design and packs, and the cigarettes of the family “VICTORY”, 84 mm and 100 mm, sold on the domestic market, have been updated. The cigarettes “VICTORY” 84 mm in varieties Blue, Gold, Silver and Sky are manufactured by Blagoevgrad-BT AD in “round corner” packs, and the cigarettes “VICTORY”, 100 mm, hard pack, are manufactured by Sofia-BT AD. The technological documentation for the production of all cigarette brands VICTORY” with the new design of packs and cigarettes has been developed and approved.

➤ New varieties of cigarette brands “GD” blue, “Melnik” and “MM” Charcoal, 84 mm, hard pack, 10-cigarettes in a pack, intended for the domestic market, manufactured by Blagoevgrad-BT AD. The tobacco blends, chemical indicators and smoking and taste qualities of the new cigarette brands have been updated.

The recipes have been updated; technical specifications and dossiers of the cigarette brands of Bulgartabac-Holding AD manufactured for the domestic market and for export have been prepared and approved.

➤ Development of cigarettes for export

At requests of clients of Bulgartabac-Holding AD, cigarettes of various formats, packs and qualities of the tobacco blend were developed for export, by using specific taste and aroma products and auxiliary materials.

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

The following varieties of cigarette brand “Prestige” RF, RC, 84 mm, were developed:

- “Prestige” Red, RF, RC, 84 mm – rich-taste cigarettes;
- “Prestige” Grey, RF, RC, 84 mm – light cigarette with balanced taste;

The above two brands have been approved by the clients and are currently manufactured by Sofia-BT AD.

➤ *Design of cigarettes “super slims”*

Two tobacco blends were developed and production tests were carried out of cigarettes “super slims” in



the direction of Virginia and American blend for production at a new cigarette packing line operated by Blagoevgrad-BT AD. The diameter of cigarettes is 5.40 mm and their length is 83 mm, which is a new format different from the traditional one in the cigarette production. New qualities of additions were used – casing and aroma compositions; a taste evaluation and chemical analyses of sample blends and cigarettes were carried out. The new cigarette format is to be introduced in regular production.

- In pursuance of Art. 35 (a) of the Tobacco and Tobacco Products Act, ITTP, Markovo village, has been provided with updated information about the contents of the chemical substances of all cigarette brands owned by BTH and sold on the domestic market in 2011.

2.2.4. Trade in tobacco products

Subsidiaries pay fees to Bulgartabac-Holding AD for rights over trademarks (royalties), as well as fees for trade representation for export of cigarettes made by Bulgartabac-Holding AD on their account.

Royalties for Bulgartabac-Holding AD in relation to rights of trademarks	
<i>31.12.2011</i>	<i>31.12.2010</i>
BGN 13,173 thousand	BGN 10,862 thousand

Fees for Bulgartabac-Holding AD under contracts for trade representation in export of cigarettes	
<i>31.12.2011</i>	<i>31.12.2010</i>
BGN 7,270 thousand	BGN 6,882 thousand

Domestic market of tobacco products

The policy pursued by Bulgartabac-Holding AD during 2011 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.

In 2011, the company maintained the volume of sales compared with that achieved in 2010, despite of the declining volumes in the banderol market.

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, the brand GD being one of the top in the segment of 10-cigarette packs.

In the third quarter of 2011 Bulgartabac-Holding AD commenced the production of 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, 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 2011 as well, although in slower paces. For most of the Bulgarian smokers, their preferences for a given trademark are strongly influenced by its price. During the past 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 higher demand for products with lower unit price, a new format of cigarette pack was launched - cigarettes in packs of 10 pieces – a format which market share has increased constantly over 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 sell is under a regime that imposes gradually various normative restrictions and other restrictive legal measures to limit smoking. Price competition among companies intensified, some of them reducing the prices of their brands by 10 to 50 stotinki per pack.

- *Unregulated trade*

During 2011, the levels of offering and unregulated trade in tobacco products remained high. The levels of contraband offering of cigarettes and RYO 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 2011 has shrunk by almost 15% compared to the same period of 2010.

- *The financial and economic crisis*

The trend of decreasing sales of tobacco products with Bulgarian excise stamps applies to ours as well as to some of the competitor's cigarette brands. The significant 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 turnovers. This reflects on the range of tobacco products offered in the points of sale. Only the best selling brands are supplied in limited quantities to the shops with lower levels of turnover.

- *Distribution*

The marketing studies of the reporting period 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 company 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 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, 01 January – 31 December 2011, the export policy of the Holding covered the targeted markets in the following regions: Middle East, Africa, the Balkan countries, CIS, Far East, EU, and Duty Free Zones.

During the past year of 2011, the export of Bulgartabac-Holding AD reached **15 648.85 million pieces**, while for the same period of 2010 it was **13 035.20 million pieces**. There is a growth of **20.05%** in the natural volumes. Respectively, in 2011 Blagoevgrad-BT AD manufactured and exported 7 462.795 million pieces vs. 6 661.28 million pieces in 2010, or a growth of almost 12.03%, while Sofia-BT AD manufactured and exported 8 186.056 million pieces in 2011 vs. 6 373.92 million pieces in 2010, or a 28.43% growth in volumes sold.

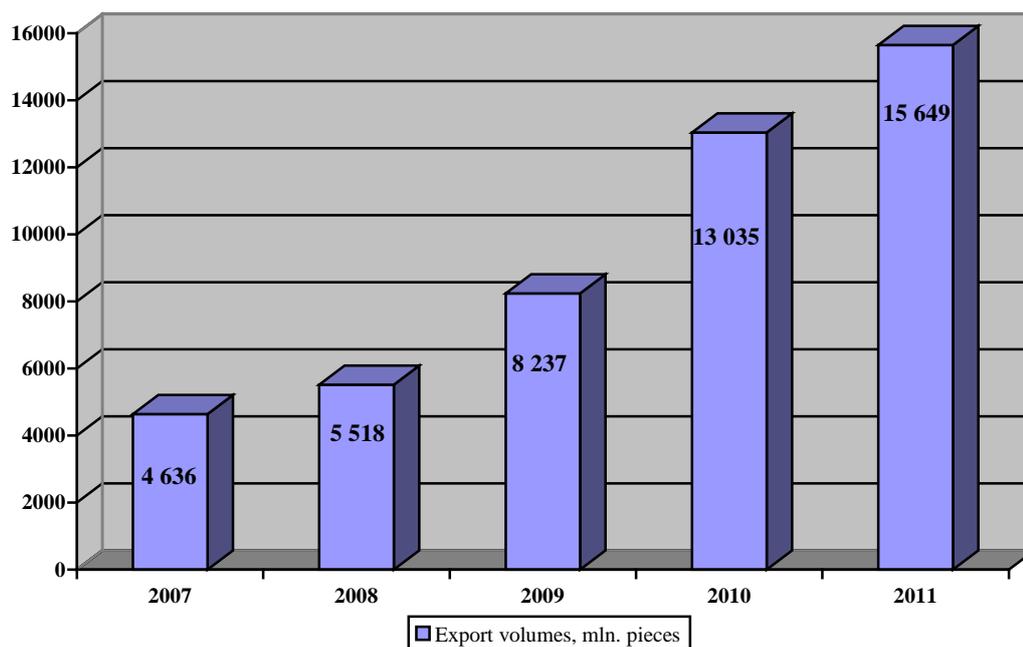
Sales in **2011** – 15 648.85 million pieces

Sales in **2010** – 13 035.20 million pieces

Volume growth (2011/2010) – 20.05%

(million pieces)

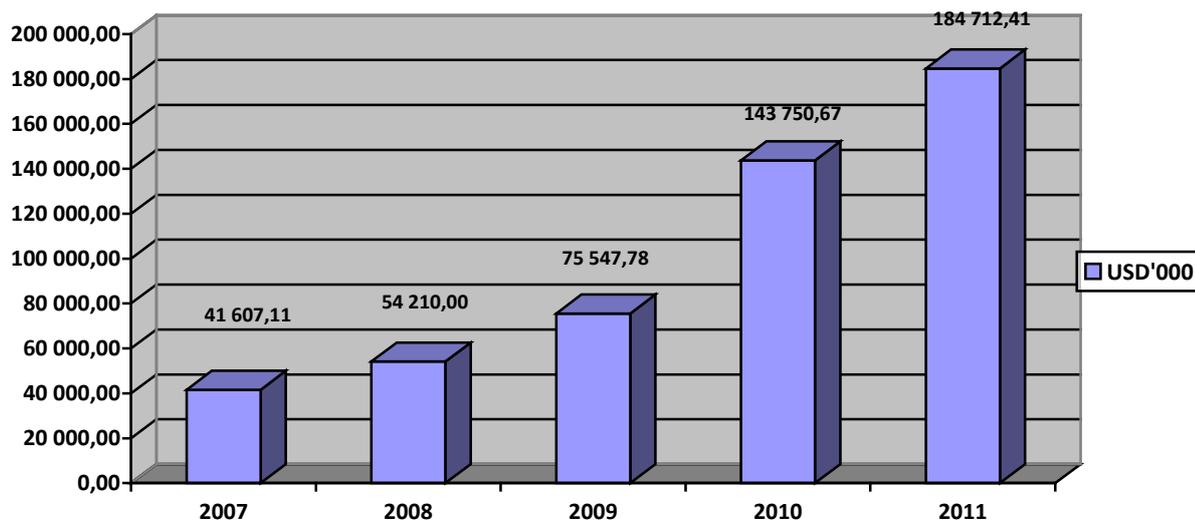
2007	4 636
2008	5 518
2009	8 237
2010	13 035
2011	15 649



Sales revenue for **2011** amounted to USD 184,712.41 thousand and EUR 12,134.83 thousand vs. USD 143,750.67 thousand and EUR 12,532.13 thousand for **2010**. Revenue in the period under review in USD, by factories, is as follows: Blagoevgrad-BT AD – USD 97,482.8 thousand in 2011 vs. USD 83,010.18 thousand in 2010, or a 17.43% growth; Sofia-BT AD – USD 87,229.61 thousand in 2011 vs. USD 60,740.49 thousand in 2010, or a 43.61% growth. Revenue in EUR, by factories, is as follows: Blagoevgrad-BT AD – EUR 1,679.55 thousand in 2011 vs. EUR 1,349.20 thousand in 2010, or a 24.48% growth; Sofia-BT AD – EUR 10,455.27 thousand in 2011 vs. EUR 11,182.92 thousand in 2010, or a 6.5% decline.

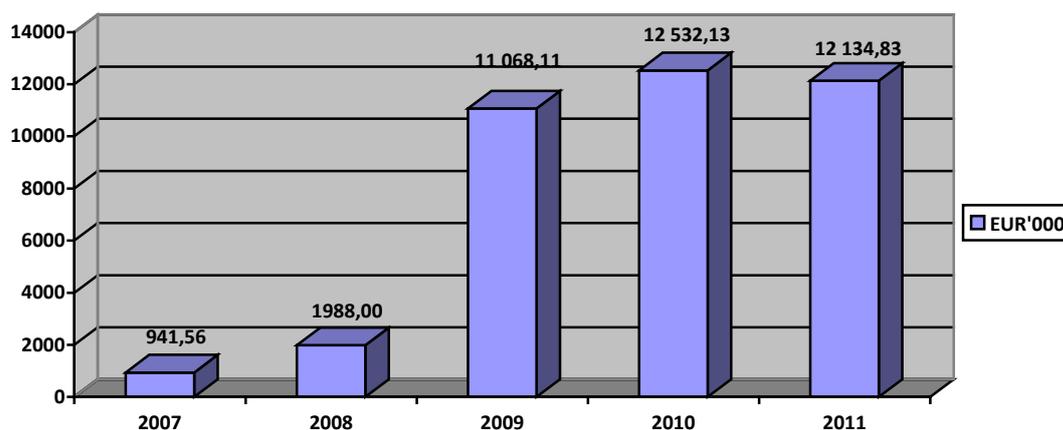
(USD'000)

2007	41 607.11
2008	54 210.00
2009	75 547.78
2010	143 750.67
2011	184 712.41



(EUR'000)

2007	941.56
2008	1 988.00
2009	11 068.11
2010	12 532.13
2011	12 134.83



Considering the above data, it may be concluded that **during 2011, despite of the gradual increase in export prices, the volumes sold are increasing compared to that sold in 2010.** Moreover, following the significant drop in sales for the Africa region in 2010 due to the termination of the production of brands owned by the client, the volumes of sales of brands owned by Bulgartabac-Holding AD has started to grow.



Based on the concluded 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 last quarter of 2011, the negotiations were finalised and cigarettes were exported for the first time to Russia;
- The development of slims cigarettes 83mm for export continued;
- Bulgartabac-Holding AD made its cigarette production compliant to the requirements of Directive 2001/95/ EC of the European Commission on general product safety, which came into effect on 17 November 2011 by introducing the special quality of cigarette papers – LIP.

The results achieved so far 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;

2.2.5. Auxiliary materials and spare parts

The main target in 2011 was 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 events occurred, which directly relate to this activity and have an impact on it, are in the following directions:

- 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% higher than that in 2010.
- Considering the increased consumption in 2011 of stiff cardboard, a 5% discount was agreed upon when reaching certain annual quantities. The levels of supply prices of stiff cardboard in the fourth quarter of 2011 were 9% lower as compared to the same period of 2010.
- Despite the raise in cellulose prices, upon negotiations, we managed to agree on prices for the supply of cigarette paper for slim cigarettes, wrapping paper and tipping paper for the fourth quarter of 2011 that are by about 3% lower on the average than the prices at the beginning of 2011.
- The price of inner frame cardboards has decreased by 2.6% to 4.5% compared to the average 2010 prices.



- 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. However, a reduction by 1% in the price of quantities supplied during 2011 was achieved with one of the suppliers of acetate tow.
- Recess filters – despite of the increased prices of acetate tow, the main raw material for the production of filters, after negotiations held a decrease of 1.5% in the prices for the fourth quarter was agreed compared with the levels at the beginning of the year.
- 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 printing products for the fourth quarter had decreased from 7.5% to 10.3%. The decrease in the prices of glues and aluminium foil for the fourth quarter was by 3-4%.
- A significant decrease was achieved in the price of one of the main aroma products - 20-23% for Quarter IV. With a main supplier, supplying about 80% of the required quantities of aroma products, a 5% discount was agreed of the price of the total quantity supplied in 2011 to both subsidiaries – Sofia-BT AD and Blagoevgrad-BT AD.
- The subsidiaries commenced the production of cigarettes with LIP cigarette paper in the end of September. This trend will continue in the future as well.
- The activity on securing the manufacturing process with spare parts is performed through placing orders to a designated supplier of the company – manufacturer of the respective plant and equipment.

The activity on ensuring the production process with spare parts is carried out through making orders to the designated supplier of the company-manufacturer of the respective plant and equipment.

Fees to Bulgartabac-Holding AD under contracts for trade representation (commissions) in Intra Community Acquisitions and import of auxiliary materials and spare parts	
Intra Community Acquisitions and Imports of auxiliary materials	
<i>31.12.2011</i>	<i>31.12.2010</i>
BGN 876 thousand	BGN 638 thousand
Intra Community Acquisitions and import of spare parts	
<i>31.12.2011</i>	<i>31.12.2010</i>
BGN 113 thousand	BGN 75 thousand



2.2.6. Quality management system /QMS/ under ISO 9001:2008

In 2011, the top management of Bulgartabac-Holding AD planned and set the strategic and operative goals to be achieved during the next few years. The quality objectives for 2011 were formulated and the Quality Policy was confirmed. The internal audits of QMS, being an important factor of control and preventive work, were planned in detail for the entire certification period until 2013.

The ease of access to the entire volume of documents and the access to QMS were improved as the whole Quality Management System was uploaded on the new internal site of Bulgartabac-Holding AD. Maintaining the system in an electronic version only has advantages related to the fact that references are always made in an up-to-date system and the need to maintain a large volume of paper documents has been eliminated.

In the second quarter of 2011, the process of preparation of the input materials for conducting a review by the QMS management started, aiming to achieve the requirements of the standard and to develop the Quality Management System (QMS) of Bulgartabac-Holding AD. The summarised reports and statements on the achievement of the 2010 Quality Goals were combined and rendered systematic, in compliance with the requirements of the standard. As a result of the review conducted by the QMS management on 28 April 2011 specific recommendations were made in connection with the system's development. The 2011 Quality Goals were updated and made more specific in view of the recommendations made and discussions held during the meeting.

An important task in maintaining the required competence of internal auditors is their periodical training. During the period 19-20 April 2011 three internal auditors took part in a training course held by AFNOR International Bulgaria. The subject of the training was the audit of management systems. The training course was completed by a test passed by the three auditors with scores between 70 and 80 and an overall rating of "very good".

The supervisory audit held on 6 October 2011 by AFNOR International Bulgaria concluded that the Quality Management System /QMS/ of Bulgartabac-Holding AD was applied in compliance with the requirements of the Standards, and there were no inconsistencies. The recommendations made in the course of the certification audit held in 2010 were implemented. During this period there were no inconsistencies recorded and claims raised by our clients

The required competence of the internal auditors is maintained through their periodical training. It has been reported that the updated QMS published in the intranet of Bulgartabac-Holding AD is used.

The well operating Quality Management System of Bulgartabac-Holding AD is an additional quality assurance tool that is provided to our clients.

2.2.7. IT activities of "Bulgartabac-Holding" AD

In 2011, Bulgartabac-Holding AD continued to renovate and improve its information environment and applied information technologies and information resource management systems. Together with the day-to-day and systematic maintenance of information technologies and information resource management systems, the improvement and building-up of various systems continued successfully in 2011 as well, with the aim to prevent any loss of data, as well as the possibility, in the event of any malfunction occurred as a result of force majeure events, to minimize the time for recovery of the operating servers, such as Web, mail, firewall, proxy, ftp, dns, dhcp, etc.



2.3. Personnel

Bulgartabac-Holding AD has an organizational and management structure compliant with the requirements for economic and management commitment.

The number of staff for the period 2009 – 2011 has been as follows:

- at 31 December 2009 175
- at 31 December 2010 165
- at 31 December 2011 159

The table below depicts the number of staff of workers and employees of Bulgartabac-Holding AD at 31 December 2011 by categories of personnel, in accordance with the National Classification of Professions and Occupations (NCPO) effective 01 January 2006.

Workers and employees pursuant to NCPO effective 01 January 2006	Average number of staff (workers and employees) at 31 December 2011
Managers	21
Analytical specialists	77
Technicians and other applied specialists	31
Administrative staff	12
Personnel entrusted with services to population, trade relations and security	0
Qualified production workers and similar craftsmen	0
Operators of plant and equipment, and workers engaged in assembly of products	11
Professions not requiring special qualification	7
Total:	159

The average number of workers hired for the holiday season of the reporting year of 2011 in the recreational bases of “Bulgartabac”- town of Nessebar, owned by Bulgartabac-Holding AD, was 9.



Age structure of workers and employees of Bulgartabac-Holding AD	Number of workers and employees	Relative share of workers and employees by age /%/
Up to 30 years	28	17,61
From 31 years to 39 years	47	29,56
From 40 years to 49 years	28	17,61
From 50 years to 60 years	51	32,08
Over 60 years	5	3,14
Total:	159	100,00

The table depicts the structure of workers and employees of Bulgartabac-Holding AD by age. The age group from 50 years to 60 years is the biggest one with its 51 workers and employees, or 32.08% of the total number of staff at 31 December 2011, followed by the age group from 31 years to 39 years by its 29.56%.

Qualification structure of workers and employees of Bulgartabac-Holding AD	Number of workers and employees	Relative share of workers and employees by education /%/
Higher education	118	74,21
Secondary education	35	22,02
Elementary education	6	3,77

Employees with higher education hold the biggest share of 74.21% within the qualification structure of workers and employees of Bulgartabac-Holding AD, followed by the employees with secondary education - 22.02%.



2.4. Dividends

➤ Dividends approved at the General Meeting of Shareholders of Bulgartabac-Holding AD

At the regular General Meeting of Bulgartabac-Holding AD, held on 23 June 2011, a resolution was passed to distribute dividends to the shareholders in the amount of 80 per cent of the 2010 profit, less the 10% deductions to the Reserve Fund. Also, decisions were taken to distribute dividends to the shareholders in proportion to their shares against accumulated profits and additional reserves of the company

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 thousand, incl. for the State, represented by the Ministry Economy, Energy and Tourism – BGN 42,298 thousand.
- Gross amount of dividends per share – BGN 7.19;
- Net amount of dividends per share /less tax on dividends of 5% for the persons under Art.194, Par.1 of Corporate Income Taxation Act and the persons under Art.38, Par.1 of the Personal Income Taxation Act /PITA/ - BGN 6.83.

Pursuant to the Public Offering of Securities Act, the company is bound to secure payment of the dividends voted at the General Meetings within 3 months of the date the General Meeting was held.

Dividends to individuals and legal entities that are not clients of an investment broker will be paid at the counters of all branches and offices of UniCredit Bulbank AD as of 24 August 2011.

Dividends to shareholders – individuals and legal entities that are clients of an investment broker will be paid through the investment broker whereat they hold subaccounts, within a three-month period as of 24 August 2011. After the expiry of the above term, dividends to shareholders – clients of investment brokers, which have not been paid by the investment broker whereat they hold subaccounts, will be paid at the counters of all branches and offices of UniCredit Bulbank AD as of 23 February 2012.

The terms and conditions for dividend payment are published on the website of the company at: www.bulgartabac.bg, section „For investors”, subsection „Internal information”, as well as on the websites of FSC, BSE-Sofia and X3 News.

➤ Dividends approved at the regular General Meetings of the subsidiaries – joint stock companies

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

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

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

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

From the dividends voted, the amount of BGN 32,035 thousand was for the parent company Bulgartabac-Holding AD, while the amount of BGN 6,126 thousand was for the non-controlling interest.



Dividends in favour of Bulgartabac-Holding AD:

	2011	2010
	BGN '000	BGN '000
Blagoevgrad-BT AD	26,559	1,046
Sofia-BT AD	5,476	62
Total	32,035	1,108

2.5. Risk factors affecting the activity of Bulgartabac-Holding AD in 2011

The shareholders of Bulgartabac-Holding AD are interested in the risk factors inherent to its activity. Information about the risk factors will facilitate the investors in making a decision to invest in shares of the company.

Risks to which the company is exposed may be classified, depending on the factors involved and possibilities for their management, as **systematic and non-systematic risks**.

Systematic risks relate to the general aspects of macroeconomic environment. They refer to all business subjects in the country and are due to external reasons beyond the control of the companies.

The macroeconomic risk is characterized by the key macroeconomic indicators, namely gross domestic product, exchange rate, inflation rate and interest rates, changes in price levels in the stock exchange market, budget deficit, unemployment, etc.

The main indicators of the economic environment influencing the Company's activity throughout the period 2007 – 2011 are depicted in the table below:

Indicators	2007	2008	2009	2010	2011
GDP in ml. BGN*	60,185	69,295	68,322	70,511	75,265
Annual real growth of GDP *	6,4%	6,2%	-5,5%	0,4%	1,7
GDP per capita in BGN	7,379	8,711	8,735	9,362	-**
Year-end inflation	12,5%	7,8%	0,6%	4,5%	2,8%
Average exchange rate of USD for the year	1,42904	1,33723	1,40670	1,47738	1,40645
Year-end exchange rate of USD	1,33122	1,38731	1,36409	1,47276	1,51158
Year-end basic interest rate	4,58%	5,77%	0,55%	0,18%	0,22%
Unemployment (year-end)	6,91%	6,27%	9,13%	9,24%	10,4%

Source: NSI (except the data on the unemployment rate), BNB, National Employment Agency

* preliminary data of NSI for 2011.

** No data is available for year 2011.

Systematic risks cannot be avoided by the entities operating in the country and their minimization is the goal of the analyses of and estimates for the macroeconomic indicators.

A slowdown of the economic growth and deterioration in macroeconomic variables in the country would lead to decline in the real income and purchasing power of the population and thus, will impact negatively on the company's profits.



Non-systematic risks are risks which can be controlled by the companies. Depending on the factors involved, they may be divided into **sector (industry)** and **operating (company) risks**.

The sector (industry) risk is the risk that occurs in relation to the development of the sector in which a company operates. It is due to the impact that technological changes in the industry may have on income and cash flows in this particular industry, as also to the strong competition in international markets, the unfair competition in the domestic market, social conflicts, etc.

The company risk relates to the company's activity. It is specific for each company and is influenced by the ability of the company to meet its liabilities.

Analysis of the conditions under which Bulgartabac-Holding AD operated in 2011

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 updating the outer appearance of the products of Bulgartabac Group.

Other risk factors, **specific to** the company's activity could be examined in several directions

Tobacco

Market perspectives for Bulgartabac-Holding AD and its subsidiaries with regard to tobacco trading in 2011 depended to a large extent on the general condition of global tobacco industry, the balance between demand and supply of tobacco, developments and effects of the economic crisis on the overall development of tobacco and cigarette industry, and many other micro- and macroeconomic factors.

Growing and purchasing of raw tobacco

The membership of Bulgaria in the EU has led to dynamic changes in the development of the Raw Tobacco Growing Branch in the country as also to amendments of some of the legislative mechanisms of tobacco buy-up and industrial 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 licensed company.
2. By issue 19 of the State Gazette of 08 March 2010 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 a lower 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 production of Basma variety group, crop 2011, was the most affected by the liberalisation of the raw tobacco market. The overall production volumes were reduced by about 30% compared with the previous crop, which, when combined with the relatively higher quality of the crop, has led to an increase in the purchase prices of the raw tobacco. A higher price is observed also for the variety groups Burley and Kaba Koulak, whereas the production volumes were kept within those produced in the previous year. An estimate could be made that the market of raw tobacco of these three variety groups will continue being unstable in the short-term and mid-term run in view of the large number of growers. Due to the relatively lower number of growers of Virginia tobacco, there is a balance between the market demand and supply with regard to this type of tobacco.

Trade in tobacco

Despite of the severe global financial and economic crisis, in 2011 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.

Risks related to investing in shares of the company

When trading in shares, the investors are exposed to various types of risks, which in general may be separated into systematic (general) risks influencing the entire market and specific risks having an impact on the shares of a given company.

Systematic risks are:

- general macroeconomic risk where the investor may suffer losses due to the deterioration in the macroeconomic stability and political environment in the country;
- interest rate risk relating to unfavourable changes in interest rates which lead to higher costs of financing for the company and thus, to lower levels of profit. The interest rate risk depends on the monetary policy of the State, the interest rate levels in the country, as also on the general economic development and conditions prevailing in the international stock-exchange markets.
- inflation risk that relates to raising inflation rates to levels that limit the economic growth and shrink the local demand.
- regulatory risk that relates to changes in legislation and regulations that could limit the development of the company's activities, etc.

Some of the specific risks having an impact on the company's shares are:

- operating (company) risk – the risk caused by disturbances in the operating activity of the company leading to deterioration of its financial results and affecting the market price of its shares. This risk relates to the nature of the company's activity and its individual characteristics.
- price risk – the risk of unfavourable changes in share prices as a result of publicly disclosed information or other events involving the company. The market price of each security changes in increase or in decrease. The company cannot guarantee that there will be no changes in the prices of its shares. In some cases, such fluctuations do not relate and do not correspond to the operating results of the company and the fluctuations cannot be predicted.
- liquidity risk – this risk finds its expression in the inability of the investor to conclude a deal in the desired time frame for a particular volume of shares at a particular price due to the lack of counter-interest. It is possible to conclude a disadvantageous deal due to the big difference between sell and buy quotations. The liquidity risk depends on the level of active trading of the shares of a given company and on the types of markets where the securities are traded in.

***Financial risk management***

For further details, see the notes to the annual financial statements for 2011 (Note 33 Financial risk management).



3. Analysis of financial operating results achieved in 2011

SEPARATE STATEMENT OF FINANCIAL POSITION

at 31 December 2011

ASSETS	31 December 2011	31 December 2010	2011/2010	
Non-current assets	BGN '000	BGN '000	% Δ	BGN Δ
Property, plant and equipment	16 980	17 744	-4%	-764
Intangible assets	60	21	185,7%	39
Investments in subsidiaries	7 009	8 519	-18%	-1 510
Investments available for sale	100	100		
Long-term receivables from related parties	125	423	-70%	-298
Long-term loans granted to employees	2	5	-60%	-3
Deferred tax assets	772	521	48,2%	251
Other non-current assets	4 085	571	615,4%	3 514
Long-term trade receivables	51	79	-35%	-28
	29 184	27 983	4,3%	1 201
Current assets				
Inventories	19 881	8 926	122,7%	10 955
Receivables from related parties	2 816	9 173	-69%	-6 357
Trade receivables	1 502	1 331	12,8%	171
Other current assets	3 180	2 317	37,2%	863
Cash and cash equivalents	21 420	49 729	-57%	-28 309
	48 799	71 476	-32%	-22 677
TOTAL ASSETS	77 983	99 459	-22%	-21 476
EQUITY AND LIABILITIES				
EQUITY				
Share capital	7 367	7 367		
Reserves	32 320	31 858	1,5%	462
Retained earnings	32 352	54 614	-41%	-22 262
	72 039	93 839	-23%	-21 800
LIABILITIES				
Non-current liabilities				
Retirement benefit obligations	1 480	1 502	-1%	-22
	1 480	1 502	-1%	-22
Current liabilities				
Trade and other payables	2 471	2 895	-15%	-424
Payables to personnel and for social security	1 993	1 223	63,0%	770
	4 464	4 118	8,4%	346
TOTAL LIABILITIES	5 944	5 620	5,8%	324
TOTAL EQUITY AND LIABILITIES	77 983	99 459	-22%	-21 476



**SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for 2011**

	2011	2010	2011/2010	
	BGN '000	BGN '000	% Δ	BGN Δ
Revenue	62 252	42 077	47,9%	20 175
Other operating gains and losses	1221	900	35,7%	321
Changes in inventories of finished products	12 155	(4 339)	380,1%	16 494
Costs of materials	(15 207)	(12 038)	26,3%	3 169
Personnel expenses	(9 672)	(8 980)	7,7%	692
Depreciation / amortisation expenses	(1 336)	(2 060)	-35%	-724
Hired service expenses	(14 322)	(10 463)	36,9%	3 859
Book value of goods sold	-	(11)	-100%	-11
(Accrued) / reversed impairment of assets, net	(4 530)	32	14256,3%	4 562
Other operating expenses	(1 041)	(512)	103,3%	529
Operating profit	29 520	4 606	540,9%	24 914
Investment gains and losses	1 651	1 750	-6%	-99
Profit before taxation	31 171	6 356	390,4%	24 815
Income tax benefit / (expense)	138	(531)	126,0%	669
Net profit for the year	31 309	5 825	437,5%	25 484
Other comprehensive income				
Impairment of property, plant and equipment against revaluation reserve	(134)	-		
Taxes on other comprehensive income	13	-		
Total other comprehensive income	(121)	-		
Total comprehensive income for the period	31 188	5 825	435,4%	25 363
Basic earnings per share (BGN)	4,25	0,79	437,5%	3



**SEPARATE CASH FLOW STATEMENT
for 2011**

	2011	2010	2011/2010	
	BGN '000	BGN '000	% Δ	BGN Δ
Cash flows from operating activity				
Proceeds from clients	41124	48 050	-14%	-6 926
Payments to suppliers	(32553)	(12 185)	167,2%	20 368
Dividends from subsidiaries	32 049	1 110	2787,3%	30 939
Payments to personnel and for social security	(8 962)	(9 302)	-4%	-340
Taxes paid (other than corporate income taxes)	(4 049)	(4 185)	-3%	-136
Taxes refunded (other than corporate income taxes)	95	-		95
Corporate income taxes paid	(127)	-		127
Loans to related parties	(33)	-		33
Donation and sponsorship	(214)	(33)	548,5%	181
Foreign currency differences, net	(19)	52	-137%	-71
Interest received	62	45	37,8%	17
Interest received on loans granted	112	215	-48%	-103
Bank charges paid	(37)	(32)	15,6%	5
Payments for long-term guarantees	(3 500)	-		3 500
Other (payments) / proceeds, net	(271)	(130)	108,5%	141
Net cash flows from operating activity	23 677	23 605	0,3%	72
Cash flows from investing activity				
Purchase of property, plant and equipment	(666)	(512)	30,1%	154
Proceeds from disposal of property, plant and equipment	32	-		32
Purchases of intangible assets	(60)	(6)	900,0%	54
Interest received on deposits granted	1 732	1	0,8%	13
Net cash flows from investing activity	1 038	1 201	-14%	-163
Cash flows from financing activity				
Dividends paid	(52902)	(10296)	413,8%	42 606
Net cash flows used in financing activity	(52902)	(10 296)	413,8%	42 606

*Management Report for 2011*

Net (decrease)/increase in cash and cash equivalents	<u>(28187)</u>	<u>14 510</u>	-294%	-42 697
Cash and cash equivalents at 1 January	49 560	35 050	41,4%	14 510
Cash and cash equivalents at 31 December	<u>21 373</u>	<u>49 560</u>	-57%	-28 187

**SEPARATE STATEMENT OF CHANGES IN EQUITY
for 2011**

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 31 December 2009	7 367	26 313	5 226	51 386	90 292
Distribution of profit for:	-	319	-	(2 620)	(2 301)
* dividends	-	-	-	(2 301)	(2 301)
* reserves	-	319	-	(319)	-
Other changes	-	-	-	23	23
* reversed provision tantiemes	-	-	-	23	23
Net profit for the year	-	-	-	5 825	5 825
Total comprehensive income	-	-	-	5 825	5 825
Balance at 31 December 2010	7 367	26 632	5 226	54 614 #	93 839
Distribution of profit for:	-	583	-	(53 571)	(52 988)
* dividends	-	-	-	(52 983)	(52 983)
* reserves	-	583	-	(583)	-
* tantiemes	-	-	-	(5)	(5)
Net profit for the year	-	-	-	31 309	31 309
Total other comprehensive income	-	-	(121)	-	(121)
* impairment of property, plant and equipment against revaluation reserve	-	-	(134)	-	(134)
* taxes on other comprehensive income	-	-	13	-	13
Total comprehensive income	-	-	(121)	31 309	31 188
Balance at 31 December 2011 r	7 367	27 215	5 105	32 352	72 039



Under conditions of financial crisis and highly competitive environment, Bulgartabac-Holding AD closed 2011 with a positive financial result of BGN 31,309 thousand. As compared to the same period of the previous year, the profit has increased by BGN 25,484 thousand.

Chronologically, there is a clear positive trend of increase of the business turnovers - sales revenue for the first quarter of 2011 amounted to BGN 6,969 thousand. For the first six months of 2011 income amounting to BGN 45,966 thousand was reported, including dividend received of BGN 32,049 thousand. Income generated in the third quarter amounted to BGN 10,308 thousand and in the fourth quarter to BGN 5,978 thousand.

The positive trend in the company's business activity and the application of measures adopted with the aim to improve financial discipline has had a positive effect on the financial ratios measuring the sustainability and competitiveness of the company during the previous year.

Revenue, which has increased from BGN 42,077 thousand (for 2010) to BGN 62,252 thousand (for 2011), is the compensated result of the following factors

Income	2011	2010	+/- BGN'000	+/- %	Factors of influence	BGN'000 Δ / million pieces Δ
Dividends received from subsidiaries – joint stock companies	32 035	1 108	+30 927			
					Incl. from Sofia-BT	+BGN 5 414 thousand
					Incl. Blagoevgrad-BT	+ BGN 25 513 thousand
Royalty	13 173	10 862	+2 311	+21,28 %		
					- Total change in the volume of cigarettes sold	+ 3 533 million pieces
					incl. Δ volume Sofia-BT	+2 301 million pieces
					incl. Δ volume Blagoevgrad-BT	+1 232 million pieces
Fees for trade representation	9 722	8 647	+1 075	+12,43 %		
incl. Commissions for export of cigarettes	7 270	6 882	+388	+5,64 %	- Total change in the volume of cigarettes sold for export	+3 007 million pieces
					incl. Δ volume Sofia-BT	+1 812 million pieces
					incl. Δ volume Blagoevgrad-BT	+1 195 million pieces
					-increase in export prices	
Incl. commissions for tobacco import / export	1 437	1 037	+400	+38,57 %	The increase in volumes manufactured and sold leads to an increase in the supplies of tobacco and auxiliary materials	
Incl. commissions for spare parts and auxiliary materials	989	713	+276	+38,71		



Tobacco sales	7 293	21 433	-14 140	-65,97 %	The delay in buying-out and industrial processing of tobacco, crop 2010	
Changes in stocks of finished products	12 155	-4 339	+16 494			
Interest and defaults on loans	29	27	+2	+7,41 %		

The comparative analysis of expenses reveals the following trends:

Expenses	2011	2010	+/- BGN'000	+/- %	Factors of influence	BGN'000 Δ / % Δ
Costs of materials	15 207	12 038	+3 169	+26,33 %	Increase in costs of raw tobacco input for processing	+ BGN 3 107 thousand +27,25 %
Personnel expenses	9 672	8 980	+692	+7,7%	Increase in costs of current remunerations	+ BGN 570 thousand +11,25 %
Costs of hired services	14 322	10 463	+3 859	+36,9 %	Increase in costs of advertising due to the highly competitive market environment	+ BGN 786 thousand +14,89 %
					Increase in costs of industrial processing of tobacco	+ BGN 1 364 thousand +61,08 %
					Increase in administrative expenses for industrial processing and buy-out	+ BGN 517 thousand +121,93 %
Impairment accrued/reversed	4 530	-32	+4 562		Tobacco write down	+ BGN 1 767 thousand
					Impairment of trade receivables	+ BGN 729 thousand
					Impairment of an investment in BTT	+ BGN 1 510 thousand
Other operating expenses	1 041	512	+529	+103 %	Donations	+ BGN 181 thousand
					Waste and scrapping of inventories	+ BGN 113 thousand
Operating profit	29 520	4 606	+24 914	+540,9 %		
Investment income and expenses	1 651	1 750	-99	-5,66%	Interest income on deposits	- BGN 105 thousand
Profit before taxes	31 171	6 356	+24 815	+390,4%		
Income tax expense/benefit	138	-531	669			
Net profit for the period	31 188	5 825	+25 363	+435,4%		



Cash of “Bulgartabac - Holding” AD at 31 December 2011 amounted to BGN 21,373 thousand, or by 57% less than cash available in the same period of 2010, the main reason being the decrease in the net cash flows from financing activity in 2010, which is the direct effect of dividends distributed of BGN 52,902 thousand. Bulgartabac-Holding AD reports positive cash flows from operating activity of BGN 23,677 thousand for 2011.

Cash flows	2011	2010	+/- BGN'000	+/- %	Factors of influence	% Δ / BGN'000 Δ
Net cash flows from operating activity	23 677	23 605	+72	+ 0,30 %		
					-proceeds from clients	-14,41 %
					-payments to suppliers	+167,15 %
					-dividends received from subsidiaries – joint-stock companies	+ BGN 30 939 thousand
Net cash flows from investing activity	1 038	1 201	-163	-13,58 %		
Net cash flows used in financing activity	-52 902	-10 296	-42 606	na	-Dividends paid to shareholders	+ BGN 42 606 thousand
Net decrease/increase in cash and cash equivalents	-28 187	14 510	-42 697	na		
Cash at the beginning of the period	49 560	35 050	14 510	+41,40 %		
Cash at the end of the period	21 373	49 560	-28 187	-56,88 %		

The balance sheet figure of Bulgartabac-Holding AD at 31 December 2011 was BGN 77,983 thousand. In comparison, it amounted to BGN 99,459 thousand at 31 December 2010. The reason for this decline in cash and cash equivalents was the dividends distributed.

	2011	2010 r	+/- BGN'000	+/- %	Factors of influence	% Δ
Non-current assets	29 184	27 983	+1 201	+4,3%	- Other non-current assets (deposit account in favour of APPC)	+615 %
Current assets	48 799	71 476	-22 677	-32 %	-Inventories (finished products – tobacco)	+122,7 %



					-Cash	-57 %
					-Receivables from related parties (Blagoevgrad)	-69 %
Total assets	77 983	99 459	-21 476	-22%		
Equity	72 039	93 839	-21 800	-23 %	-Retained earnings (distributed additional dividends)	-39,78 %
Non-current liabilities	1 480	1 502	-22	-1,46 %		
Current liabilities	4 464	4 118	-346	-8,4 %		
Total equity and liabilities	77 983	99 459	-21 476	-22 %		

The long-term stability and viability of the company can be illustrated through the following financial ratios:

Financial ratios	Report 31.12.2011	Report 31.12.2010	Report 31.12.2009
Price / Earnings (loss) per share (P/E)	7,25	38,98	39,35
Market capitalisation / Sales revenue (P/S)	3,71	5,39	3,09
Price / Accounting value (P/B)	3,18	2,41	1,39
Return on equity (ROE)	43,88 %	6,21 %	3,54 %
Return on assets (ROA)	40,81 %	5,86 %	3,09 %
Earnings (loss) before taxes and interest expense – BGN'000 (EBIT)	31 846	6 356	2 733
Earnings (loss) before taxes and interest expense / Equity (ROE using EBIT)	43,88 %	6,78 %	3,03 %
Earnings (loss) before taxes and interest expense / Assets (ROA using EBIT)	40,80 %	6,39 %	2,64 %
Market capitalisation / Earnings (loss) before taxes and interest expense (P/EBIT)	7,25	35,70	46,01
Debt-Equity ratio	0,08	0,06	0,15
Coefficient of liquidity (COL)	12,26	17,35	6,04
Assets – Turnover	0,80	0,42	0,39



The average weighted price prevailing at the last session of the stock exchange, at which company's shares were traded at 31 December 2011 was BGN 31,352 *per share*, and at 31 December 2010 it was BGN 30,08 *per share*.



4. Important events which have occurred after the date of preparation of the annual financial statements

For further details, see the notes to the annual financial statements for 2011 (Note 35 – Events after the end of the reporting period).

5. Research and development activities

The company does not perform any research and development activities.

6. Branches of the company

Bulgartabac-Holding AD does not have branches.

7. The financial instruments used by the company, and when important for measuring the assets, liabilities, financial performance and financial result, are disclosed also the following:

- a) the goals and financial risk management policy of the company, including its hedging policy by types of hedged items for which hedge accounting is applied, and***
- b) the company's exposure to price, credit and liquidity risks, and to risk of cash flows.***

For further details, see the notes to the annual financial statements for 2011 (Note 33 – Finance risk management).

8. Information under Art. 187e of the Commercial Act

Bulgartabac-Holding AD does not held treasury shares in the capital of the company.



9. Emoluments received in 2011 by the members of the Board of Directors of the company – information under Art. 247, Para. 1, i.1 of the Commercial Act.

Emoluments of key management staff, including social security contributions paid thereon, are as follows:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Emoluments and other short-term benefits	200	81
Tantiemes	5	-
Total	205	81

10. Shares of Bulgartabac-Holding AD acquired, held and transferred by the members of the Board of Directors of the company in 2010 – information under Art. 247, Para. 1, i.2 of the Commercial Act.

Pursuant to information of the members of the Board of Directors of Bulgartabac-Holding AD, in 2011 they neither acquired, nor transferred or held shares of the company's capital.

11. Rights of the members of the Board of Directors to acquire shares and debentures of the company – information under Art. 247, Para. 1, i.3 of the Commercial Act

The company's Statute does not contain special provisions vesting a right to the members of the Board of Directors to acquire shares and debentures of Bulgartabac-Holding AD.

12 Participation of the members of the Board of Directors in commercial companies as general partners, holding of more than 25% of the capital of another company, as well as their participation in the management of other companies or cooperative societies as procurators, managers or board members - information under Art. 247, Para. 1, i.4 of the Commercial Act

Pursuant to information of the members of the Board of Directors of Bulgartabac-Holding AD, who have performed activities in 2011, their participation in commercial companies as general partners, holding of more than 25% of the capital of another company, as well as their participation in the management of other companies or cooperative societies as procurators, managers or board members, is as follows:

ALEXANDER DIMITROV MANOLEV Member and Chairman of BD /until 03 November 2011/

- participation in commercial companies as a general partner - ST „Alexander Manolev-Ralex-D”;
- holding of more than 25% of the capital of another company – „ROCK-2005” OOD;
- participation in the management of other companies or cooperative societies as procurators, managers or board members - „ROCK-2005” OOD, ST „Alexander Manolev-Ralex-D”.



GEORGI SERAFIMOV KOSTOV Member and Vice Chairman of BD /until 03 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – N/A
- participation in the management of other companies or cooperative societies as procurators, managers or board members – Member of BD and Executive Director of Blagoevgrad-BT AD.

IVAN ATANASOV BILAREV Member of BD and Executive Director /until 03 November 2011/ and Procurator /as of 18 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – IB Building EOOD;
- participation in the management of other companies or cooperative societies as procurators, managers or board members – Member of BD and Executive Director of Bulgartabac-Trading EAD.

ALEXANDER JURJEVICH ROMANOV Member and Chairman of BD / as of 04 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – N/A
- participation in the management of other companies or cooperative societies as procurators, managers or board members – Member of BD and Executive Director of NCH.

YAVOR NIKOLAEV DRAGANOV Member and Vice Chairman of BD / as of 04 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – „Modesta“ EOOD, „New Age“ OOD;
- participation in the management of other companies or cooperative societies as procurators, managers or board members – N/A

VENCISLAV ZLATKOV CHOLAKOV Member of BD and Executive Director / as of 04 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – N/A
- participation in the management of other companies or cooperative societies as procurators, managers or board members: Blagoevgrad-BT AD – Member and Chairman of BD, Pleven-BT AD - Member and Chairman of BD, Bulgartabac-Trading EAD – Member and Chairman of BD, Sofia-BT AD - Member and Vice Chairman of BD.

ANGEL DIMITROV DIMITROV Member of BD and Executive Director / as of 04 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – „DD 22“ EOOD;
- participation in the management of other companies or cooperative societies as procurators, managers or board members: Blagoevgrad-BT AD – Member and Vice Chairman of BD, Pleven-BT AD - Member and Vice Chairman of BD, Bulgartabac-Trading EAD – Member and Vice Chairman of BD, Sofia-BT AD - Member and Chairman of BD.



MIGLENA PETROVA HRISTOVA Member of BD / as of 04 November 2011/

- participation in commercial companies as a general partner – N/A
- holding of more than 25% of the capital of another company – 50% of the capital of „BEFT“OOD;
- participation in the management of other companies or cooperative societies as procurators, managers or board members – Member of BD of Bulgartabac-Trading EAD.

13. Contracts under Art. 240b concluded in 2010 - information under Art. 247, Para. 1, i.5 of the Commercial Act

Pursuant to the requirements of Art. 240b of the Commercial Act, the board members are obliged to notify in writing the Board of Directors, and respectively, the Managing Board of the company, if they or their related parties conclude contracts with the company going beyond the ordinary activity of the company or significantly different from market conditions.

Pursuant to information of the members of the Board of Directors of Bulgartabac-Holding AD, in 2011 they did not conclude any contracts within the scope of the above mentioned article of the Commercial Act.

14. Possible future development of the company in 2012

Long-term goals for development of Bulgartabac-Holding AD:

- **maintaining leading market share of at least 35% of the cigarette market in Bulgaria;**
- **increasing export volumes – reaching average export levels of more than 80 percent of the total volume sold during the planning period.**

The operating goal of Bulgartabac-Holding AD is to ensure the company's financial stability aimed at cutting down fixed expenses by 5% as compared with those reported in 2011.

Analysis of the conditions in which Bulgartabac-Holding AD will work during the period 2012-2014 (PEST analysis)

Political factors

- ✓ Legislative changes concerning the manufacturing, storage and sales of excise goods on the territory of the country;
- ✓ 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;
- ✓ Parliamentary elections in 2013.

*Economic factors*

- ✓ The continuing financial crisis directly affecting and leading to reduced levels of purchasing power of the population; high elasticity of cigarette demand vs. their retail prices;
- ✓ Highly competitive domestic market environment under the conditions of a „price” war;
- ✓ Considerable share of sales of non-regulated sales of cigarettes on the domestic market;
- ✓ Expected increase in prices of basic raw materials and materials;
- ✓ Increased excise rates of cigarettes and of roll-your-own tobacco from 2013;
- ✓ Positive assumptions for the development of the global economy and coming out of the recession;
- ✓ Smooth increase of consumer confidence as well as higher inflow of direct foreign investments (2012-2013).

Social factors

- ✓ Worldwide social and health policy of fighting tobacco smoking;
- ✓ Restrictive law on smoking in public places and restaurants;
- ✓ Drop in employment in the country and reduction of the purchasing power of the population;
- ✓ The dynamic economic, market and competitive environment will necessitate certain measures for optimizing and improving the effectiveness of work flows.

Technological factors

- ✓ 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.

Tobacco buy-out and processing

In 2012, the buy-out will be completed and the industrial processing of tobacco will take place of tobaccos of crop 2011, owned by Bulgartabac-Holding AD. The industrial processing has been assigned to Pleven-BT AD in accordance with contracts for the service of industrial processing.

In 2012, the negotiations for the Bulgarian tobaccos, crop 2012, are forthcoming, depending on the needs of the Group and the beginning of their buy-up and industrial processing.

In view of the full liberalization of the raw tobacco market, the future results of the activity “buy-out and industrial processing” will depend directly on the demand and supply of tobacco, including in the Bulgarian and in foreign markets.

Large related party transactions to be completed in 2012 – The sale of Bulgarian tobacco for the needs of the cigarette production of Blagoevgrad-BT AD and Sofia-BT AD is to be completed.

Trade in tobacco

Based on the contracts concluded and the expected new agreements for purchasing and sale, we expect the following forecast sales of Bulgarian tobaccos during 2012:



Forecast of the sales of tobacco owned by Bulgartabac-Holding AD in 2012								
Type/origin	Quarter I 2012		Half-year 2012		Nine months of 2012		Total 2012	
	tons	Amount BGN'000	tons	Amount BGN'000	tons	Amount BGN'000	tons	Amount BGN'000
Oriental/large-leaf and tobacco waste	33	190,8	323	1 818	1 067	7 296,2	1 810	12 611,5

Sale of tobacco products

• *Domestic market of tobacco products*

The main goal of Bulgartabac-Holding AD's commercial policy in 2012 will be stabilizing and increasing the company's market share. Optimizing the brand structure, while abiding by the requirements for high quality of the products manufactured and preserving the dominant market share in general.

The expected sales on the domestic market in 2012 of the cigarette brands owned by Bulgartabac-Holding AD will mainly be determined by:

- the level of trade in tobacco products without excise stamps in the country and the effectiveness of measures undertaken to limit it;
- the behaviour of the multinational companies – pricing policy, marketing activities, way of distribution /fair competition/;
- the purchasing power of the population;
- the development of the financial crisis, which directly or indirectly leads to shrinking disposable income of the population;
- the willingness of part of consumers to limit smoking or to give it up entirely;
- the restrictive legislative measures against smoking;
- the active marketing and advertising support of Bulgartabac brands;
- the development and updating of the portfolio for the domestic market, entirely oriented towards the consumer – introduction of new formats of already recognised brands and creation of new brands in compliance with the requirements for high quality of products manufactured.

Forthcoming events

- a distribution contract is to be concluded with a company with a nation-wide coverage;
- a structural change in the Trade Directorate – Bulgaria;
- enlarging the portfolio of brands offered on the domestic market.



- **Export of tobacco products**

Based on the results achieved in 2011, an export strategy has been developed for 2012 that corresponds to the trade policy adopted by management of Bulgartabac-Holding AD and to the long-term goals set to the company, underlying its trade and marketing development strategy.

The objective analysis of the markets and the potential of our brands revealed a real opportunity to achieve a volume of 17,066.51 million pieces in foreign markets, or a 9% growth as compared to the volumes in 2011.

Bulgartabac-Holding AD has market positions established in some of the countries of the region of the Middle and Far East, CIS, the Balkan countries, countries in the West Africa region, and Duty Free Zones.

Under the conditions of constantly increasing competition on the part of multinational companies, ever changing factors on macro- and micro-levels, Bulgartabac-Holding AD have to improve its competitiveness and to penetrate new markets.

Upon introducing new products to foreign markets, Bulgartabac-Holding AD have to analyse the overall specifics of the market and the intra-company preconditions underlying the company's development.

The development of an overall marketing strategy to facilitate the introduction of a product will minimize the risk level on entering new markets. Factors supporting the success of new products are also to be analysed, such as orientation to the ever changing consumer needs, establishing the consumer tastes, preferences, and analysis of the consumers' sensitivity to the prices of products offered.

In 2012, it is necessary for Bulgartabac-Holding AD to become a flexible and market-oriented structure, which manufactures products oriented to the market and takes into account the key factors of demand prevailing on the particular market. Therefore, expenditure should be planned that will be needed for the implementation of the strategies for introduction of new products in old markets and of new products in new markets.

The dynamics in the export market demand predetermine the company's behaviour and the required changes in its product mix.

One of the options for optimisation of the company's product portfolio is the development of a new tobacco blend of low value intended for the markets in Middle and Far East and Africa.

Brands included in the export list of Bulgartabac-Holding AD should ensure better correspondence to the customers' wishes, needs and preferences. A special attention should be paid to the consumer packing of cigarettes – the quality of design and print of the pack – corresponding to the consumers' preferences on the specific markets.

Another option for optimisation is the adoption of flexible pricing to hold the product penetration into export markets, using various pricing models.

In the conditions of market economy, each entity has the right to freely determine the prices of its products. Bulgartabac-Holding AD shall determine its prices by taking into consideration market competition, demand and its own business interest associated with the expenses incurred and profits generated.

It is possible, for the purpose of formation of export prices for the brands included in the export list of the company, to apply not only cost pricing methods (in particular, a cost calculation method) but also market methods (such as a method taking into account market competition – a comparative analytical pricing method, or methods taking into account market conditions – the method of critical point). The specific



pricing method depends on the objectives and tasks of the company with regard to the specific market.

The market success of the company in international markets depends on the organisation of real and effective advertising and promotional events destined for export markets.

The promotional mix, as part of the marketing mix, shall be developed in compliance with the effective country legislation and all forms of advertising and sales promotion shall be used at maximum, as permitted by law.

The development of a suitable and targeted marketing mix will allow the company to achieve the goals set to it in connection with each particular market. Bulgartabac-Holding AD shall find the reasonable balance between the possibilities of the market and its intra-company resources and potential in order to guarantee the market success of the company internationally.

Personnel development in 2012

The forecast for the average number of the company's staff, per quarters of 2012, is as follows:

- First Quarter of 2012 - 161 persons
- Second Quarter of 2012 r - 169 persons
- Third Quarter of 2012 - 173 persons
- Fourth Quarter of 2012 - 167 persons

15. Information under Art. 100 n, par. 7 of the Public Offering of Securities Act (POSA)

1. the execution of the program for adoption of the internationally recognized standards of corporate governance under par. 4, p. 3, and when such program is not available – for the reasons why it has not been prepared, as well as the conformity of the activities of the managing and control bodies of the issuer during the year with these standards.

2. the reasons why the activities of the managing and the controlling bodies of the issuer have not been in conformity with the program and the standards, respectively, in case there is such inconformity.

3. the measures undertaken to eliminate the reasons under p. 2 and for execution of the good corporate governance program.

4. assessment of the program and suggestions for its change in view of improving the adoption of the standards of good corporate governance in the company.

In the Corporate Governance Program of Bulgartabac-Holding AD the main principles, procedures and rules are set, that should provide guidance to the managing body of the company in respect of treating equally all the shareholders, ensuring to the shareholders an opportunity to exercise their rights to a greater extent, improving the process of public information disclosure and supporting the organization of the company's activities.

The extent to which the company abides by the main principles of good corporate governance is a factor of growing importance for making investment decisions – both for raising the volume of foreign investments and for increasing the confidence of the local investors, which should eventually lead to providing more stable sources of financing.



1. General information on the structure of the shareholding participation in Bulgartabac-Holding AD and its shareholders

At 31 December 2011, Bulgartabac-Holding AD held shares in 8 subsidiaries – joint stock companies. The holding is the majority owner of the subsidiaries – joint stock companies and at that date, it held shares ranging between 78.22% and 100.00% of their capital. Bulgartabac-Holding AD exercises control over 7 of these companies, and in 1 of them it does not hold the power to manage its financial and operating policies due to the fact that the entity has become an object of judicial control (declared in insolvency proceedings).

Bulgartabac-Holding AD was a 100% private company at 31 December 2011.

The allocation of share capital at the same date is as follows:

- | | |
|--|------------------------|
| • BT Invest GmbH, Austria | 79.83% of the capital; |
| • Corporate Commercial Bank | 8.21% of the capital; |
| • Other shareholders – legal entities (57) | 10.52% of the capital; |
| • Shareholders - individuals (1507) | 1.44 % of the capital. |

On 14 October 2011, the Agency of Privatisation and Post Privatisation Control, in its capacity of a seller of the State participation in the capital of Bulgartabac-Holding AD, transferred to BT Invest GmbH, Austria, 5,881,380 shares, or 79.83% of the capital of Bulgartabac-Holding AD. The transaction was registered with Central Depository on 14 October 2011.

At 31 December 2011, there were no individuals – shareholders of Bulgartabac-Holding AD holding more than 5 percent of the voting shares.

According to the Book of Shareholders issued by Central Depository AD at 31 December 2011, there are two shareholders – legal entities – BT Invest GmbH, Austria, and Corporate Commercial Bank AD, which hold more than 5 percent of the capital of Bulgartabac-Holding AD.

No changes were made in the share capital of the company in 2011.

2. Corporate bodies

The bodies of the company are:

- the General Meeting of the shareholders
- the Board of Directors

A change was made in the composition of the Board of Directors of the company in 2011.

At the extraordinary GMS of **Bulgartabac-Holding AD**, held on 01 November 2011, Alexander Manolev, Georgi Kostov, and Ivan Bilarev were discharged as members of the Board of Directors of the company. As new members of the Board of Directors of the company were elected Alexander Romanov, Yavor Draganov, Angel Dimitrov, Vencislav Cholakov, and Miglena Hristova, with a 3-year mandate. The company is managed and represented jointly by the two Executive Directors, Angel Dimitrov and Vencislav Cholakov. Alexander Romanov was elected as Chairman and Yavor Draganov as Vice Chairman of the Board of Directors. The above facts were announced and entered into the batch of Bulgartabac-Holding kept by the Trade Register at the Registry Agency on 04 November 2011.



On 18 November 2011, Ivan Bilarev was registered with the Trade Register at the Registry Agency as Procurator who is able to represent the company jointly with either one of the Executive Directors.

41 meetings of the Board of Directors were held in 2011.

3. Auditors

At the regular GMS of the company held on 23 June 2011, the specialized audit firm “HLB Bulgaria” OOD, reg. No 017, was appointed to perform the audit and to certify the separate and the consolidated financial statements for 2011.

In pursuance with the requirements of Article 40f of the Independent Financial Audit Act, Bulgartabac-Holding AD, as a company performing activities in public interest, has an Audit Committee with the following members: Emiliya Yaneva, Ivelina Bachchevanova and Yulian Nikolov.

According to the law, the Audit Committee shall perform the following functions: to monitor the financial reporting processes within the company operating in public interest; to monitor the effectiveness of the entity’s internal control systems; to monitor the effectiveness of the risk management systems of the company; to monitor the independent financial audit in the company; to check the independence of the company’s registered auditor in accordance with the requirements of the law and the Code of Ethics of Professional Accountants, including to monitor the provisioning of additional services by the registered auditor to the auditee.

The Audit Committee shall report on its activities to the General Meeting of Shareholders one a year, together with the approval of the annual financial statements.

4. Representation of the rights of the shareholders of Bulgartabac-Holding AD and measures for their protection

The managing bodies of Bulgartabac-Holding AD strive to conduct a policy of good corporate governance for achieving the company’s goals and to secure and protect the shareholders’ rights.

The following rights are guaranteed to our shareholders:

- The right of secure methods of registration of the ownership – the registration is performed by the Central Depository.
- The right to sell or transfer freely their shares. The transactions with dematerialized registered shares of the company are conducted on the regulated markets of securities only, through certified investment intermediaries. The transfer of the registered dematerialized shares takes effect as of the moment of entering the transaction in the register of the Central Depository.
- The right to receive in due time information related to the company.
- The right to participate and vote at the General Meeting of Shareholders.
- The right to be distributed part of the company’s profit in the form of dividend.
- The right to liquidation share commensurable with the shares held in case of liquidation of the company.
- The right to acquire new shares. When the company increases its capital, every shareholder has the right to acquire shares pro rata to his stake in the capital before the increase, i.e. the shareholders can preserve their stake in the company.



- Protection of the shareholder in case of large amount deals or deals with the participation of interested parties.
- We have made efforts to abide by the principle of equal treatment, i.e. we have provided simultaneously to the shareholders and to all other interested persons and institutions (FSC, BSE and the general public) timely and accurate information required by the law and by-laws, sending it electronically through the X3 news system.

5. Submission and distribution of information during 2011

This activity is mainly directed to the existing and potential investors in shares of Bulgartabac-Holding AD and their right to receive regular and timely information about the company. Their attention is mainly turned to the financial position, the operating results, the information about payment of dividends, the structure of ownership and the management of the company, the ongoing processes of privatization of the company, the prices and trade in shares at BSE-Sofia.

In 2011, Bulgartabac-Holding AD, through its Investor Relations Director, provided, within the legally established deadline, the Financial Supervision Commission /FSC/, the Bulgarian Stock Exchange-Sofia AD /BSE/ and the general public with periodical, internal and other regular corporate information in accordance with the Public Offering of Securities Act. Information was submitted electronically, through the uniform system for electronic distribution of information X3 news. Bulgartabac-Holding AD has a contract concluded with Financial Markets Service EOOD, the operator of information system and media X3 news, through which the information is announced simultaneously to the general public, FSC and BSE. Since the beginning of 2010 a new service of Financial Markets Service EOOD has been provided through which information revealed to the general public on www.x3news.com is published also on the site www.infostock.bg. In this way the circle of users having access to the published by the company regulated and other information has been widened.

The information submitted periodically comprises the annual and quarterly financial statements of the company, as well as the consolidated financial statements of Bulgartabac Group. The aim of these financial statements is to provide information, that is necessary to the shareholders and any potential investors in securities in order to make an informed investment decision and to assess how profitable and expedient their shareholding participation in the company is.

The accounting and financial information included in the periodical financial statements has been prepared in accordance with International Accounting Standards and its correctness is guaranteed and controlled by an external independent auditor.

Besides the submission of periodical financial statements, in 2011 Bulgartabac-Holding AD had informed, within the legally established deadline, the FSC, the BSE and the general public about the Internal information having effect on the price of its shares that was included in the exemplary list of facts and circumstances enumerated in Appendix 9 of the Ordinance No 2 of 17 September 2003. Circumstances related to decisions of the regular and extraordinary General Meetings held, distribution of dividends to the shareholders in 2010, changes in the composition of the Board of Directors of the company, notices by shareholders for disclosure of shares, a notice of the change made in the persons exercising control over Bulgartabac-Holding AD, etc, were disclosed.

Great importance is attached to informing the shareholders, the FSC, the BSE, as also the general public, of **convening of General Meetings of Shareholders** of the company and of the decisions taken at these General Meetings. In 2011, one regular GMS was held on 23 June 2011 and one extraordinary GMS was held on 01 November 2011. The shareholders had been informed early enough before the holding of the meetings through publishing the invitation under Art. 223, par. 4 of the Commercial Act with the Trade Register of the Registry Agency. The invitation and materials for the General Meeting under Art. 224 of



the Commercial Act had been made available to the general public through X3 news. Keeping the requirement that the submitted powers of attorney comply with Art. 16, par. 1 of the POSA had been observed. Within 3 working days after holding the respective General Meeting the company had submitted the minutes thereof to the FSC and the BSE, as well as to the general public through X3 news.

The company had duly informed the FSC, the Central Depository, BSE-Sofia AD and the general public about the decision of the General Meeting regarding **the type and amount of the dividend**, as well as of the conditions and order of its payment.

The shareholders of the company were directly interested in the financial results of the company and in the distribution of its profits and payment of dividends, respectively.

At the regular GMS of Bulgartabac-Holding AD, held on 23 June 2011, a resolution was passed to distribute dividends to the shareholders in the amount of 80 per cent of the 2010 profit, less the 10% deductions to the Reserve Fund. Also, decisions were taken to distribute dividends to the shareholders in proportion to their shares against accumulated profits and additional reserves of the company

The payment of dividends for 2010 to the shareholders of Bulgartabac-Holding AD commenced on 24 August 2011.

Pursuant to the effective legislation, the payment of dividends to the shareholders – individuals and legal entities that are clients of investment intermediaries is to be effected through the CD while the payment of dividends to the shareholders – individuals and legal entities that have their own accounts is to be done through Unicredit Bulbank AD.

As of 23 February 2012 the dividends of the shareholders of Bulgartabac-Holding AD – clients of investment intermediaries, which have not been paid by the investment intermediary whom they have an account with will continue to be paid by Unicredit Bulbank AD, of which we have also made the respective announcement.

Out of all discussed responsibilities to provide reports and to make announcements, it has become clear that the information contained therein is available to the shareholders and they are in a position to use it in order to effectively exercise and protect their rights. The law, however, gives the shareholders additional rights to receive information. Such possibility is stipulated by Art. 115, par. 4 of the POSA, pursuant to which the members of the managing and controlling bodies are obliged to answer correctly, comprehensively and to the point to questions of the shareholders, raised at the General Meeting and concerning the economic and financial position and the commercial activity of the company, except about circumstances that represent internal information. The shareholders can ask such questions, no matter if they are connected to the agenda or not.

The publication of information on the Internet site of Bulgartabac-Holding AD, where a created with this purpose special section called “For Investors” exists, has a great importance to shareholders and potential investors. In this section all required by law and given to the FSC, BSE-Sofia AD and the general public periodical internal and other regular information connected to the activities of the company is submitted for publishing in due time.

Following best practices, to ensure transparency to the regulator and investment community and simultaneous access to information for all interested parties, from February 2011 all documents to be published on the website are translated and published mandatory in English language as well.

Suitable forms of communication (meetings, telephone calls, e-mail correspondence or by post) are used to communicate with the company’s shareholders in connection with their rights of shareholders, by observing and complying with the principles of the Good Corporate Management Program, including for equal treatment of all shareholders – minority, majority and foreign shareholders, protection of their shareholder rights, for the timely and accurate disclosure of information in accordance with POSA, etc. Their inquiries relate primarily to payment of dividends, shares quotations at BSE, General Meetings,



perspectives and future development of the company, etc.

The Program for adoption of the internationally recognized standards of good corporate governance of Bulgartabac-Holding AD from 2003 will continue to be implemented in 2012 as well, and the company will take into consideration all the new requirements coming out of changes in law in the area of investor relations.

16. Additional information in accordance with Appendix No 10 to Art. 32, Para. 1, i. 2, of Ordinance No 2 of 2003 for prospectuses

1. Value and quantitative information about major categories of goods, products and/or services rendered, together with their share in sales revenue of the issuer as a whole, and any changes occurred throughout the reporting financial year.

Tobacco sales in 2011

	Quantity /tons/	Selling amount /BGN'000/	Share in net sales revenue* /%/
Goods	-	-	-
Products	1,474	7,293	23,13%
Total:	1,474	7,293	23.13%

Services and other income in 2011

	Amount /BGN'000/	Share in net sales revenue * /%/
Services	23,258	73.76%
Other income	981	3.11%

* Net sales revenue at 31 December 2011 amounts to BGN 31,532 thousand.

**Tobacco sales in 2010 г.**

	Quantity /tons/	Selling amount /BGN'000/	Share in net sales revenue* /%/
Goods	7	11	0.03%
Products	3,002	21,422	51.20%
Total:	3,009	21,433	51.23%

Services and other income in 2010

	Amount /BGN'000/	Share in net sales revenue * /%/
Services	19,906	47.58%
Other income	500	1.20%

* Net sales revenue at 31 December 2010 amounts to BGN 41,839 thousand.

2. Information about income allocated by separate categories of activities, domestic and foreign markets, as well as information about the sources of supply of materials needed for the production of goods or rendering of services, with reflection of the level of dependency with regard to each separate seller or buyer/consumer, and if the relative share of any of them exceeds 10% of costs of sales or sales revenue, then information about each person shall be provided on an individual basis, as well as of its share in sales or purchases, and of its relationships with the issuer.

REVENUE	2011 BGN '000	2010 BGN '000
Tobacco sales	32,035	1,108
Royalties	13,173	10,862
Fees under contracts of trade representation of subsidiaries	9,722	8,647
Tobacco sales	7,293	21,433
Interest and penalties on loans	29	27
Total	62,252	42,077

Income from subsidiaries is included in the total amount of income – 93% (2010: 81%)



Revenue is allocated as follows:

	2011	2010
	BGN '000	BGN '000
Domestic market	51,221	27,373
Export	11,031	14,704
Total	62,252	42,077

Dividends are from the following subsidiaries:

	2011	2010
	BGN '000	BGN '000
Blagoevgrad-BT AD	26,559	1,046
Sofia-BT AD	5,476	62
Total	32,035	1,108

Revenue under trade representation contracts comprises:

	2011	2010
	BGN '000	BGN '000
Cigarette export	7,270	6,882
Tobacco import and export	1,437	1,037
Import of auxiliary materials	876	638
Import of spare parts	113	75
Sale of tobacco in the domestic market	26	15
Total	9,722	8,647

3. Information about large transactions and transactions of significant importance to the company's activity

In 2011, the Agency of Privatisation and Post Privatisation Control sold the State share of 79.83% of the capital of Bulgartabac-Holding AD to BT Invest GmbH, Austria. As of 14 October 2011 the company is a 100% private company.

Shares of Bulgartabac-Holding AD in subsidiaries – joint-stock companies have not been sold throughout 2011.

4. Information about the transactions concluded between the issuers and its related parties during the reporting period, proposals for conclusion of such transactions, as well as transactions going beyond its ordinary activity or significantly different from market conditions, where to either the issuer or its related party is a party, by indicating the transaction amount, the nature of relationships and any other information that is needed to assess the impact on the financial position of the issuer.



4.1. Information about the transactions concluded between Bulgartabac – Holding AD and its related parties during the reporting period.

Detailed information is provided in the notes to the annual financial statements for 2011 (Note 32.2).

All related parties of the company are part of Bulgartabac Group.

Related parties within the Group are as follows:

<i>Related parties</i>	<i>Type of relationships</i>	<i>Period of relationships</i>
Bulgartabac – Trading EAD	Subsidiary	2010 and 2011
Blagoevgrad-BT AD	Subsidiary	2010 and 2011
Haskovo Tabac AD – in liquidation	Subsidiary	2010 and 2011
Sofia-BT AD	Subsidiary	2010 and 2011
Asenovgrad BT AD – in liquidation	Subsidiary	2010 and 2011
Shumen Tabac AD	Subsidiary	2010 and 2011
Pleven BT AD	Subsidiary	2010 and 2011
Foundation for Funding the Social Costs of Bulgartabac-Holding AD Privatisation (the Fund)	General member of managing bodies	2010 and 2011

The company treats the Foundation for Funding the Social Costs of Bulgartabac-Holding AD Privatisation (Fund) as a related party as it has been established by Bulgartabac-Holding AD for purposes relating to the Group's restructuring and by the beginning of November 2011 its day-to-day operations were managed by General Manager who was also a Vice Chairman of Board of Directors of Bulgartabac-Holding AD.

The company does not treat as a related party Dulovo Tabac AD – in insolvency, although it holds 99.98% of its capital, due to the loss of control over the company.

The transactions of Bulgartabac-Holding AD with its related parties for both periods presented are only with subsidiaries and are as follows:

	2011	2010
	BGN '000	BGN '000
1. Sales of products and goods for:		
Subsidiaries within Bulgartabac Group, incl..	3,193	13,617
· Tobacco	3,094	13,606
· Materials	99	10
· Goods	-	1



2. Sales of services for:

Subsidiaries within Bulgartabac Group, incl..	23,063	19,725
· royalties	13,173	10,862
· trade representation (commissions)	9,722	8,647
· penalties for overdue payments on cash loans	131	131
· interest on postponed dividends and other	27	27
· advertising in Bulgarian tobacco magazine	6	6
· rents	4	45
· tobacco storage	-	7

3. Dividends received from subsidiaries:	32,035	1,108
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4. Supply of goods and fixed assets from:

Subsidiaries within Bulgartabac Group, incl..	135	70
· cigarettes	132	70
· fixed assets	2	-
· materials	1	-

5. Rendering of services from:

Subsidiaries within Bulgartabac Group, incl.	5,904	3,211
· industrial processing of tobacco	3,597	2,233
· expenses on tobacco buyout	767	17
· administrative expenses on industrial processing of tobacco	671	418
· advertising	497	457
· administrative expenses on tobacco buyout	270	6
· rents	90	61
· tobacco storage	10	15
· preparation of tobacco lots for sale	2	4



6. The closing balances of receivables from and payables to related parties are as follows:

6. 1 Receivables from subsidiaries	2,941	9,596
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In 2011 and 2010 there were no decisions of the Board of Directors of Bulgartabac-Holding AD to make donations to the Fund to finance its activity and to facilitate the achievement of its goals.

In accordance with signed licence agreements with Bulgartabac-Holding AD for licences for the trademarks owned by Bulgartabac-Holding AD, the subsidiaries pay licence fees (royalty) determined as a percent of the selling price.

The subsidiaries pay fees for trade intermediation for performed by Bulgartabac-Holding AD import and export activities on their account, determined as a percentage of the transaction amount.

On sale and purchase of MFT between the subsidiaries and Bulgartabac-Holding AD, the prices are determined depending on: crop, variety, quality, uniformity of lots, and level of export prices for the respective origin at the transaction date as well as the demand and supply of the domestic and foreign markets and the existing stocks of analogous tobaccos.

On purchase and sale of cigarettes, the prices of the deals are determined on the basis of freely determined retail prices (only subject to registration) and deducting 10% trade discount from the retail price (VAT not included).

The terms and conditions under which the transactions have been performed are at arm's length.

The positive balance (BGN 3,500 thousand) of a bank account was provided to serve as a pledge to secure the penalties under the Privatisation contract for the sale of shares of the capital of Bulgartabac-Holding AD in relation to the commitment of the Buyer – the main shareholder of the company - to make investments.

4.2. Information about transactions that go beyond the ordinary activity or significantly differ from market conditions whereto Bulgartabac-Holding AD or its subsidiary is a party, by indicating the transaction amount, the nature of relationships and any other information that is needed to assess the impact on the financial position of the issuer.

4.2.1. Information about Bulgartabac-Holding AD

There is no information about transactions that go beyond the ordinary activity or significantly differ from market conditions whereto Bulgartabac-Holding AD is a party. The terms and conditions of the transactions are at arm's length.

4.2.2. Information about subsidiaries of Bulgartabac-Holding AD

Pursuant to information of subsidiaries, no transactions that go beyond the ordinary activity or significantly differ from market conditions have been concluded.

5. Information about events and indicators of unusual nature to the issuer, which have a significant impact on its activity and its revenue and expenses; assessment of their impact on the results for the current year..

There is no information of any such events.



6. Information about off-balance sheet transactions – nature and business purpose, financial impact of the transaction on the company's activity, if the risks and rewards of these transactions are material to the issuer and if the disclosure of this information is of significance to the assessment of the financial position of the issuer.

There is no information of any off-balance sheet transactions.

7. Information about shareholdings of the issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estate), as well as investments in securities outside its economic group and sources/methods of financing.

Investments in subsidiaries

Detailed information is provided in the notes to the annual financial statements for 2011 (Note 15 – Investments in subsidiaries).

<i>Name of the company</i>	<i>Country</i>	<i>Date of acquisition</i>	<i>31.12.2011 BGN' 000</i>	<i>Share %</i>	<i>31.12.2010 BGN' 000</i>	<i>Share %</i>
„ Bulgartabac – Trading EAD	Bulgaria	11.08.2006	4,089	100,00	4,089	100,00
<i>Impairment</i>			(1,510)			
Blagoevgrad-BT AD	Bulgaria	01.01.1994	2,304	85,24	2,304	85,24
	Bulgaria					
Haskovo Tabac AD – in liquidation		01.01.1994	967	91,77	967	91,77
<i>Impairment</i>			(967)		(967)	
Sofia-BT AD	Bulgaria	01.01.1994	952	78,22	952	78,22
Asenovgrad Tabac AD – in liquidation	Bulgaria	01.01.1994	442	82,71	442	82,71
Shumen Tabac AD	Bulgaria	01.01.1994	368	85,60	368	85,60
Pleven BT AD	Bulgaria	01.01.1994	364	85,60	364	85,60
Total amount of investments			7,009		8,519	

Bulgartabac-Holding AD holds the control over the following companies.

The object of activity of the subsidiaries is as follows:

- Bulgartabac-Trading EAD: distribution of tobacco products and trade;
- Blagoevgrad-BT AD: manufacturing and trade in tobacco and tobacco products.
- Sofia-BT AD: manufacturing and trade in tobacco and tobacco products.
- Asenovgrad Tabac AD – in liquidation: manufacturing and trade in tobacco and tobacco products.
- Shumen Tabac AD: manufacturing and trade in tobacco and tobacco products.
- Pleven BT AD: manufacturing and trade in tobacco.



- Haskovo Tabac AD – in liquidation: manufacturing and trade in tobacco and tobacco products.

A decision was taken at the extraordinary General Meeting of Shareholders of Asenovgrad Tabac AD (held on 01 September 2011) to terminate the activity and initiate a liquidation procedure with regard to the company. The decision was registered with the Trade Register at the Registry Agency on 05 October 2011.

In 2010, 487 thousand shares of the capital of Bulgartabac-Trading AD were bought from Slantse Stara Zagora Tabac AD sold to Bulgartabac-Holding AD for the amount of BGN 529 thousand. After the transaction, Bulgartabac-Holding AD became the owner of 100% of the capital of Bulgartabac-Trading AD (4,047 thousand shares in the amount of BGN 4,089 thousand). The legal form of the trader was changed as well, from Bulgartabac-Trading AD to Bulgartabac-Trading EAD.

At 31 December 2011 investments in subsidiaries are stated at cost, less any impairment. The cost is the nominal amount of the shares held by Bulgartabac-Holding AD in the share capital of the subsidiaries - BGN 1 per share, except for the investment in the capital of Bulgartabac-Trading EAD amounting to BGN 1.01 per share after the acquired additional shares.

Sales of subsidiaries

During the reporting years of 2011 and 2010, there were no sales of investments in subsidiaries held by Bulgartabac-Holding AD.

Available-for-sale investments

Detailed information is provided in the notes to the annual financial statements for 2011 (Note 16 – Available-for-sale investments).

<i>Name</i>	<i>Country</i>	<i>31.12.2011</i> <i>BGN' 000</i>	<i>Share 31.12.2010</i> <i>% BGN' 000</i>	<i>Share</i> <i>%</i>
„Dulovo Tabac AD – in insolvency <i>Impairment</i>	Bulgaria	118 (118)	99,98 (118)	99,98
International Asset Bank AD	Bulgaria	<u>100</u>	0,50 <u>100</u>	0,50
Total		<u>100</u>	<u>100</u>	

At 31 December 2010 investments available for sale were stated at cost, which was the nominal amount of shares held by Bulgartabac-Holding AD in the share capital, except for the investment in a subsidiary undergoing an insolvency procedure, which had been 100% impaired.



Property, plant and equipment

Detailed information is provided in the notes to the annual financial statements for 2011 (Note 13 – Property, plant and equipment).

	<i>Land and buildings</i>		<i>Plant and equipment</i>		<i>Other</i>		<i>FTA in progress</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Book value										
Balance at 1 January	22,041	22,018	203	198	3,886	3,508	145	48	26,275	25,772
Additions	-	23	6	5	131	46	578	461	715	535
Transfers among accounts	-	-	-	-	661	364	(661)	(364)	-	-
Impairment	(235)	-	-	-	-	-	-	-	(235)	-
Disposals	(23)	-	(22)	-	(559)	(32)	-	-	(604)	(32)
Balance at 31 December	21,783	22,041	187	203	4,119	3,886	62	145	26,151	26,275
Accumulated depreciation										
Balance at 1 January	5,451	4,806	147	114	2,933	2,186	-	-	8,531	7,106
Depreciation for the year	646	645	32	33	636	777	-	-	1,314	1,455
Depreciation written off	(1)	-	(22)	-	(550)	(30)	-	-	(573)	(30)
Impairment	(101)	-	-	-	-	-	-	-	(101)	-
Balance at 31 December	5,995	5,451	157	147	3,019	2,933	-	-	9,171	8,531
Carrying amount at 31 December	15,788	16,590	30	56	1,100	953	62	145	16,980	17,744
Carrying amount at 1 January	16,590	17,212	56	84	953	1,322	145	48	17,744	18,666

At 31 December 2011 properties included: land in the amount of BGN 4,438 thousand (31 December 2010 : BGN 4,438 thousand) and buildings with carrying amount of BGN 11,350 thousand (31 December 2010 : BGN 12,152 thousand).

At 31 December 2011 fixed tangible assets in progress comprised promotional equipment – shelves in the amount of BGN 62 thousand (31 December 2010 : BGN 145 thousand).



Intangible assets

Detailed information is provided in the notes to the annual financial statements for 2010 (Note 14 – Intangible assets).

	<i>Trademarks</i>		<i>Software</i>		<i>Other</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Book value								
Balance at 1 January	4,030	4,030	88	82		139	4,118	4,251
Additions	34	-	26	6	-	25	60	31
Disposals	-	-	(43)	-	-	(164)	(43)	(164)
Balance at 31 December	4,064	4,030	71	88	-	-	4,135	4,118
Accumulated amortisation								
Balance at 1 January	4,030	3,435	67	57	-	-	4,097	3,492
Amortisation for the year	8	595	14	10	-	-	22	605
Amortisation written off	-	-	(44)	-	-	-	(44)	-
Balance at 31 December	4,038	4,030	37	67	-	-	4,075	4,097
Carrying amount at 31 December	26	-	34	21	-	-	60	21
Carrying amount at 1 January	-	595	21	25	-	139	21	759

The following are the most famous cigarette brands, based on royalty income:

- for the domestic market – Victory, E♥A, MM, GD, Sredets and Melnik;
- for export – Prestige, MM, Victory and E♥A.

Bulgartabac-Holding AD has registered together with other persons the following cigarette brands: US Mild ultra smoker and Charlie.

8. Information about loan contracts concluded by the issuer, by its subsidiary or by the parent company, in their capacity of borrowers, and the terms and conditions thereof, including maturity dates, as well as information about guarantees provided and liabilities assumed.

Information about Bulgartabac-Holding AD

In 2011 Bulgartabac-Holding AD did not use any bank and other loans.

Information provided to us by the subsidiaries:

Asenovgrad-Tabac AD – in liquidation

The company has a monetary loan No 311-ДЗ of 17 June 2011; a special pledge of plant, which had been described in a contract for pledge of plant, was established in relation to this loan to secure the loan amount. The deadline for repayment of the monetary loan is 31 August 2012.



Blagoevgrad-BT AD

There are no loan contracts whereto Blagoevgrad-BT AD is a borrower.

Bank guarantees issued at 31 December 2011 to the benefit of contractors amounted to BGN 30,270 thousand (31 December 2010 : BGN 30,355 thousand), as follows:

Bank-issuer	Amount of guarantee at 31 December 2011 BGN'000	Amount of guarantee at 31 December 2010 BGN'000	In favour of:
Corporate Commercial Bank AD	30,000	30,000	CCD –Customs Agency
ING Bank N.V. –Sofia Branch	155	155	Rila Gas EAD
Corporate Commercial Bank AD	115	-	Rila Gas EAD
ING Bank N.V. –Sofia Branch	-	200	CCD –Customs Agency
Total:	30,270	30,355	

No liabilities have been assumed.

Pleven BT AD

- **Long-term bank loans**

Bank creditor: Eurobank EFG Bulgaria AD.
Loan amount: BGN 9,779 thousand (EUR 5,000 thousand);
Interest rate: 3-month EURIBOR + 5.75%;
Maturity: 20 March 2016;
Collateral: Pledge of FTA (value under a pledge contract – EUR 5,000 thousand), Pledge of inventories (value under a pledge contract – EUR 5,000 thousand);
Purpose of the loan: Investment loan extended in 2006;
Long-term portion at 31 December 2011 at amortised amount: BGN 3,230 thousand;
Short-term portion at 31 December 2011 at amortised amount: BGN 1,003 thousand

- **Short-term bank loans**

Bank creditor: Eurobank EFG Bulgaria AD;
Loan amount: BGN 6,500 thousand;
Interest rate: 3-month SOFIBOR + 2.50%;
Maturity: 07 October 2012;
Collateral: Pledge of FTA (value under a pledge contract – BGN 6,500 thousand), Pledge of inventories (value under a pledge contract – BGN 6,500 thousand), Pledge of receivables (value under a pledge contract – BGN 8,336 thousand);
Purpose of the loan: to refinance a revolving credit line extended in 2010 to cover operating expenses of the company relating to its activity;



Short-term portion at 31 December 2011 at amortised amount: BGN 6,494 thousand

An annex was signed on 28 September 2011 to the bank loan contract, by virtue of which the currency of the new credit line was changed (from EUR to BGN), as well as the amount of the interest due (from 3-month EURIBOR + 5,65% to 3-month SOFIBOR + 2,50%) and the deadline for loan repayment – 07 October 2012.

Sofia-BT AD

- At 31 December 2011 the company has an **overdraft** contract concluded with Raiffeisenbank (Bulgaria) EAD under the following terms and conditions:

Agreed loan amount:	EUR 13,000 thousand
Balance at 31 December 2011:	Nil
Purpose of the loan:	working capital
Interest rate:	1-week EURIBOR+2.25
Collateral:	pledge of inventories, pledge of plant and equipment, pledge of receivables
Term of utilisation:	10 February 2013

- At 31 December 2011 the company has an **investment loan** contract concluded with Raiffeisenbank (Bulgaria) EAD under the following terms and conditions:

Agreed loan amount:	EUR 10,000 thousand
Balance at 31 December 2011:	EUR 8,248 thousand

Incl.: current portion of long-term loans received

Current portion of long-term loans to banks:	BGN 6,176 thousand
Commissions for loan management:	BGN 54 thousand
Net amount of the short-term portion:	BGN 6,122 thousand
Purpose of the loan:	purchase of FTA
Interest rate:	3-month EURIBOR+2.95
Collateral:	pledge of inventories, pledge of plant and equipment, and a pledged right
Term of utilisation:	10 August 2014

- Bank guarantees**

Bank guarantees issued for the benefit of company's contractors at 31 December 2011 amounted to BGN 30,000 thousand, as follows:

<i>Bank -issuer</i>	<i>Amount of guarantee at BGN '000</i>	<i>For the benefit of</i>
CITIBANK N.A.	30,000	Customs Agency
Total:	30,000	



Guarantees issued for the benefit of Customs Agency were for excise stamps.

Bank guarantees issued were under a contract with CITIBANK N.A. concluded under the following terms and conditions: maturity date – 18 December 2012; collateral – promissory note to the benefit of the bank for the loan amount.

Shumen Tabac AD

Annex No 2 was signed on 30 June 2011 between Shumen-Tabac AD and Bulgartabac-Holding AD to an agreement of 01 November 2009 for payment of the dividend for 2008.

Haskovo-Tabac AD – in liquidation

The company has a monetary loan contract No 53-Д33 of 17 March 2004 concluded with Bulgartabac-Holding AD, according to which the Holding grants to Haskovo-BT AD a monetary loan of BGN 1.5 million. The purpose of the loan was to secure the payment of liabilities to the company's personnel. The term of the loan is 12 months with a grace period of 6 months and an interest rate of 75% of the statutory interest at the date of signature of the contract. A security in the form of long-term assets was provided against the loan amount, which covered 150% of the principal amount. The loan is past due – the deadline for its repayment was 28 February 2006.

9. Information about loan contracts concluded by the issuer, by its subsidiary or by the parent company, in their capacity of borrowers, including issuance of guarantees of any type, including to related parties, with indication of their specific terms and conditions, including maturity dates and purpose they have been issued for.

Information about Bulgartabac-Holding AD

Since 2000 Bulgartabac-Holding AD has been granting internal cash loans to its subsidiaries – joint-stock companies.

Loans granted to subsidiaries at 31 December were as follows:

	<i>31.12.2011</i>	<i>31.12.2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Haskovo Tabac AD – in liquidation	1,500	1,500
Shumen Tabac AD	165	165
Asenovgrad Tabac AD – in liquidation	33	-
<i>Impairment</i>	<i>(1,665)</i>	<i>(1,665)</i>
Total	<u><u>33</u></u>	<u><u>-</u></u>

Purpose of the loans: to finance the current activity of the companies, and especially the tobacco buyout. Part of loans has been granted to companies experiencing severe difficulties to enable them to cover their current expenses on salaries and/or overdue payments to suppliers and other creditors.



Annual interest rate: for regular principal - 75% of statutory interest (BIR + 10 b.p.) at the date of signing the contract.

Annual interest rate: for overdue principal – 7.2%.

Collateral provided (at the date of signing the contract): it includes a mortgage of fixed tangible assets, pledge of inventories and fixed tangible assets in the amount of 150% of principal, and a promissory note issued – for the principal and interest on the loan contract, in accordance with a repayment schedule.

In 2011, Bulgartabac-Holding AD granted a loan of BGN 33 thousand to its subsidiary Asenovgrad-Tabac AD – in liquidation with an annual interest rate of 7.5%. In 2010 there were no cash loans granted to subsidiaries.

Information provided to us by the subsidiaries:

Sofia-BT AD

In 2011 Sofia-BT AD did not conclude loan contracts as a lender.

Collateral provided in favour of Sofia-BT AD at 31 December 2011 amounted to BGN 5,487 thousand.

Blagoevgrad-BT AD

In 2011 Blagoevgrad-BT AD did not conclude loan contracts as a lender.

Collateral provided in favour of Blagoevgrad-BT AD at 31 December 2011 amounted to BGN 9,544 thousand and EUR 2,952 thousand.

Bulgartabac-Trading EAD

Bulgartabac-Trading EAD issued promissory notes to:

Blagoevgrad-BT AD – maturity 31 December 2011 - BGN 184,052.36
Sofia-BT AD - maturity 31 December 2011 - BGN 160,766.34.

10. Information about the use of funds received as a result of the new emission of securities made during the reporting period

In 2010, no such circumstance occurred for Bulgartabac Holding AD.

11. Analysis of the ratio between the financial results achieved, as reported in the financial statements for the financial year, and the forecasts of these results published earlier.

Bulgartabac-Holding AD did not publish officially any forecasts of the estimated financial results from its activity in 2011.

12. Analysis and evaluation of the financial resource management policy by indicating the possibilities for serving the liabilities, as well as any possible threats and measures undertaken or to be undertaken by the issuer with the purpose of their removal.

In 2011, the activity of Bulgartabac-Holding AD was financed with equity funds only. Neither bank loans



nor emission of debt instruments, or other forms of external financing, were used. Through optimum structuring and expensing of own funds, a good liquidity level was achieved that was sufficient to ensure the normal functioning of the company.

The company applies best practices and approaches for selection of financial entities to provide cash and cash equivalent management services, payment and other services related thereto. They are based on the adopted 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. Using the work of several financial entities elected according to this rules, the concentration of risks within the company is minimised and its stability and sustainability are guaranteed. The following are used as selection criteria: market interest rates, ratings of commercial banks, the need of diversification of risk exposures to separate banks, information about previous transactions, possibility to exercise constant control, and other terms and conditions.

In 2011, as well as in previous years, Bulgartabac-Holding AD neither used bank loans nor had significant (onerous/interest) liabilities, and therefore, no measures were needed to eliminate them.

13. Assessment of the possibilities to achieve investment intentions by indicating the amount of available funds and reflecting any possible changes in the structure of financing.

14. Information about changes in the main principles of governance of the issuer and of its economic group during the reporting period.

As of 14 October 2011, the ownership of Bulgartabac-Holding AD is 100% private as a result of the completed procedure for the privatization of the State share in the company's capital.

At its meeting held on 23 January 2012, the Board of Directors of Bulgartabac-Holding AD approved the new organizational and management structure.

15. Information about the main characteristics of the internal control system and risk management system applied by the issuer in the process of preparation of the financial statements.

For further details about risk management, see the annual financial statements for 2011 (Note 33 – Financial risk management).

16. Information about changes in the managing and supervision bodies during the reporting financial year.

In 2011, a change was made in the composition of the Board of Directors of the company.

At the extraordinary GMS of **Bulgartabac-Holding AD**, held on 01 November 2011, Alexander Manolev, Georgi Kostov, and Ivan Bilarev were discharged as members of the Board of Directors of the company.

As new members of the Board of Directors of the company were elected Alexander Romanov, Yavor Draganov, Angel Dimitrov, Vencislav Cholakov, and Miglena Hristova, with a 3-year mandate. The company is managed and represented jointly by the two Executive Directors, Angel Dimitrov and Vencislav Cholakov. Alexander Romanov was elected as Chairman and Yavor Draganov as Vice Chairman of the Board of Directors. The above facts were announced and entered into the batch of Bulgartabac-Holding kept by the Trade Register at the Registry Agency on 04 November 2011.

On 18 November 2011, Ivan Bilarev was registered with the Trade Register at the Registry Agency as Procurator who is able to represent the company jointly with either one of the Executive Directors.



17. Information about the total amount in emoluments, rewards and/or other benefits to the members of the managing and control bodies, paid by the issuer and its subsidiaries during the reporting financial year, irrespective of whether they have been included in the issuer's expenses or originate from profit distribution, including:

a) amounts received and in-kind bonuses

Bulgartabac-Holding AD has a one-tier management system (Board of Directors).

For the financial year of 2011, the following emoluments of key management staff, including social security contributions paid thereon, were accrued:

	<i>2011</i>	<i>2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>
Emoluments and other short-term benefits	200	81
Tantiemes	5	-
Total	205	81

b) contingent or postponed remunerations accrued during the year, even if the remuneration is due on a later date – **None**.

18. For public companies - Information about issuer's shares held by the members of managing and control bodies, procurators and key management staff, including shares held by each one of them and as a percentage of the shares of each class, as well as share options provided to them by the issuer – type and amount of share options, option exercise price, purchase price, if any, and term of the options

At 31 December 2011 none of the members of the Board of Directors, the Procurator and top management staff - Executive Directors, Directors of Directorates, Chief Accountant and Chief Legal Adviser - held shares in the capital of Bulgartabac-Holding AD.

There were no share options issued by Bulgartabac-Holding AD.

19. Information about the agreements made known to the company (including after closing the financial year) as a result of which changes could occur in future periods in the relative share of shares or debentures held by current shareholders or debenture holders.

There is no such information available with Bulgartabac-Holding AD.

20. Information about pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer in an amount of at least 10 % of its equity; if the total amount of liabilities or receivables of the issuer on all initiated proceedings exceeds 10% of its equity, then information of each individual proceeding shall be presented.

Information about lawsuits in the country and abroad whereto Bulgartabac-Holding AD is a party is given in the notes to the annual financial statements of the company for the year ended 31 December 2011.

In 2011 Bulgartabac-Holding AD was a party to a lawsuit with cost of claim exceeding 10% of the company's equity, namely:



Civil case No 10-4261 at the Appellate court New York City, cost of claim of USD 29,772,383.99, initiated by Bulgartabac-Holding AD against the decision of the court of first instance by virtue of which the claim against Iraq, the State Tobacco Group, the Central Bank of Iraq, and Rafidan bank for the payment of the amount of USD 29,772,383.99, being unpaid liabilities under contracts for supply of cigarettes and spare parts dated 1987 was rejected. The appeal of Bulgartabac - Holding AD was rejected. The decision is final and has entered into force.

21. Data of the Investor Relations Director, including telephone number and correspondence address

The Investor Relations Director of Bulgartabac-Holding AD as of 06 December 2011 is Irena Venkova Valeva, tel. 02/9306815, correspondence address: Sofia 1000, 62 Graf Ignatiev Street, e-mail: I.Valeva@bulgartabac.bg.

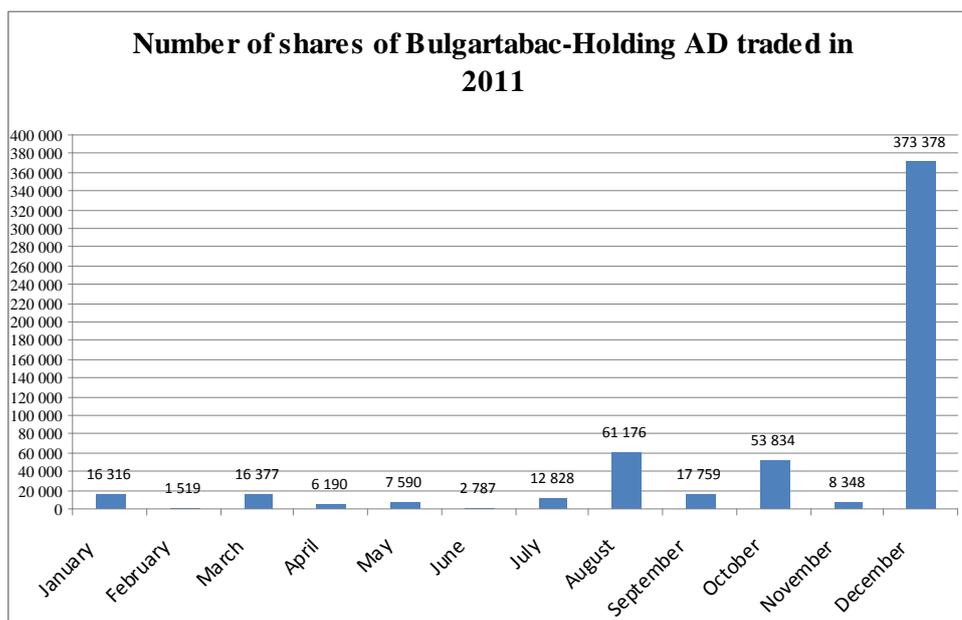
22. Trading in the company's shares.

The shares of Bulgartabac-Holding AD in 2011 were listed for trading on the Unofficial Market of Bulgarian-Stock-Exchange-Sofia AD, segment A. The results were as follows:

- volume of shares traded during the year 578 102 shares (2010 – 973,189 shares);
- number of transactions during the year 779 transactions (2010– 444 transactions);
- minimal average weighted price BGN 21.115 (2010– BGN 12.785);
- maximum average weighted price BGN 32.969 (2010– BGN 31.940);
- average weighted price for the period BGN 29.501 (2010– BGN 25.694);
- final average weighted price BGN 31.352 (2010– BGN 30.800);
- turnover during the year BGN 17,377,850.63 (2010– BGN 25,012,794.99)

The graphs below illustrate the movements in the average-weighted price and number of shares traded, by months of 2011:





Pursuant to a decision of the Board of Directors, Bulgartabac-Holding AD was included, effective 11 March 2011, in the database of two stock exchange indices: **BG TOTAL RETURN 30** and **BG 40**.

BG TOTAL RETURN 30 is an index based on the price performance of the common shares included in the index portfolio. It comprises the biggest and most liquid 30 companies traded in BSE-Sofia classified in accordance with a number of criteria, each one having equal weight: market capitalization, number of transactions during the last 6 months, turnover during the last 6 months, and free-float.

BG 40 is an index based on the price performance of the issues and comprises 40 issues of common shares of the companies with the greatest number of transactions and the highest median value of the daily turnover during the last 6 (six) months as the two criteria shall have equal weight.

In connection with the amendments of the Operating Rules of BSE-Sofia AD concerning the structure of markets, effective from 01 March 2012, the registered share emissions of companies of Bulgartabac Group are allocated by markets and market segments, as follows:

On the Bulgarian Stock Exchange of BSE-Sofia AD (BSE)

- Segment shares „Standard“ – the shares of Bulgartabac-Holding AD; Blagoevgrad-BT Ad and Sofia-BT AD;

On Bulgarian Alternative Stock Market (BaSE)

- Segment shares „Standard“ – the shares of Asenovgrad-Tabac AD – in liquidation, Pleven-Tabac AD, Shumen-Tabac AD, Haskovo-Tabac AD – in liquidation.

Pursuant to a decision of the Board of Directors of Bulgarian Stock Exchange – Sofia AD dated **12 March 2012**, Bulgartabac-Holding AD was also included, effective 19 March 2012, in the database of the stock index **SOFIX** with free-float coefficient of 0.1195.

SOFIX is an index based on the market capitalisation of the included emissions of ordinary shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float.



17. Analysis and explanation of information under Appendix No 11 of Ordinance No 2 of 2003 for prospectuses.

1. Structure of the company's capital, including securities listed for trading on a regulated market of Republic of Bulgaria or another Member State indicating the different classes of shares, the rights and duties embodied in each class of shares, and the portion of the total capital which every class constitutes.

At 31 December 2011 the subscribed and actually paid-in capital of Bulgartabac-Holding AD amounted to BGN 7,367,222 (seven million three hundred and sixty-seven thousand two hundred and twenty-two).

The company's capital is split into 7,367,222 (seven million three hundred and sixty-seven thousand two hundred and twenty-two) shares with nominal amount of BGN 1 (one) each.

The shares of Bulgartabac-Holding AD are of one class – ordinary, freely transferable and of one type – registered and dematerialised. The shares are publicly offered, listed for trading on the regulated market of Republic of Bulgaria – on the Unofficial Market of Bulgarian-Stock-Exchange-Sofia AD, segment A.

At 31 December 2011 the ownership of Bulgartabac-Holding AD is 100% private.

The allocation of share capital at the same date is as follows:

- BT Invest GmbH, Austria 79.83% of the capital;
- Corporate Commercial Bank 8.21% of the capital;
- Other shareholders – legal entities (57) 10.52% of the capital;
- Shareholders - individuals (1507) 1.44 % of the capital.

Rights over the shares: Pursuant to Art. 6, Para. 5 of the company's Statute, each share confers the right to one vote at the General Meeting of Shareholders, right to dividend and to a liquidation share in proportion to the nominal amount of the shares. Pursuant to Art. 6, Para. 7 of the company's Statute, the company cannot issue preference shares conferring the right to more than one vote or to an additional liquidation share.

2. Restrictions on the transfer of securities, such as restrictions on the holding of securities or need to obtain the approval of the company or another shareholder.

The shares of Bulgartabac-Holding AD are registered, dematerialized and freely transferable shares that are publicly offered. They are transferred on a regulated market.

The exchange of registered dematerialized shares against bearer's shares and imposing restrictions on their transfer is allowed after the company is de-registered from the register of the Financial Supervision Commission.

3. Information about the direct and indirect holding of 5% or more of the voting rights at the General Meeting of the company, including information about the shareholders, amount of their shareholding and manner in which the shares are held.

At 31 December 2011 in Bulgartabac-Holding AD there were no shareholders – individuals holding more than 5% of the voting shares.

According to the Book of Shareholders issued by Central Depository AD at 31 December 2011, there are



two shareholders – legal entities – BT Invest GmbH, Austria, and Corporate Commercial Bank AD, which hold more than 5 percent of the capital of Bulgartabac-Holding AD.

4. Information about shareholders with special control rights and description of any such right

At 31 December 2010, BT Invest GmbH, holding 79.83% of the company's capital, had the controlling interest in the company.

The rights of the company's shareholders are described in its Statute, which has been developed and approved in pursuance and on the grounds of the requirements of the Commercial Act and the Public Offering of Securities Act.

5. Control system for the exercise of the voting rights when employees of the company are also its shareholders and when control is not exercised by them immediately

There is no information about the existence of such a control system for the exercise of the voting right when employees of the company are also its shareholders. The right to vote at the General Meeting of Shareholders is exercised by the shareholders by observing the requirements of the then effective Statute, Commercial Act and Public Offering of Securities Act.

6. Restrictions on the voting rights, such as restrictions on the voting rights of shareholders holding a certain percentage or number of shares, deadline for the exercise of the voting right or systems under which the financial rights associated with the shares are separated from the holding of the shares with the cooperation of the company.

There are no restrictions on the voting rights of the shareholders imposed by the effective Statute of the company.

Pursuant to the effective Statute of the company, the company's shares are indivisible. When a share is held by more than one person, they exercise their voting rights together, by assigning a proxy. Each share confers the right to one vote at the General Meeting of Shareholders, right to dividend and to a liquidation share in proportion to the nominal amount of the shares. The right to vote at the General Meeting of Shareholders emerges with the full payment of the issue value of each share and after registering the company, and respectively its capital increase, with the Trade Register. The voting right is exercised by those persons who have been registered as shareholders into the register of the Central Depository at least 14 days prior to the date of the General Meeting.

7. Agreements between shareholders known to the company which may lead to restrictions in the transfer of shares or the voting right

The company is not aware of any agreements between shareholders known to the company which may lead to restrictions in the transfer of shares or the voting right.

8. Provisions for the appointment and release of members of the managing bodies of the company and for amendments and supplementations of the Statute

The Statute of Bulgartabac-Holding AD has been prepared and approved in pursuance and on the grounds of the requirements of the Commercial Act and the Public Offering of Securities Act.

The company's Statute, and the final amendments and supplementations thereof, was approved by the regular General Meeting of Shareholders held on 25 June 2010 and registered with the Trade Register at the Registry Agency on 09 July 2010, and announced to the Financial Supervision Commission under ref. No INC_NUM 10-05-15763 FORM_ID: 64476 dated 12 July 2010; to BSE_Sofia under ref. No 5987 dated 12 July 2010 and to the public through X3 News on 12 July 2010.

Provisions for the appointment and release of members of the Board of Directors are described in Art. 13,



i.4; Art. 18, Para. 2 and Para. 6 and Art. 22 of the company's Statute.

Provisions for amendments and supplementations of the Statute are described in Art. 13, i.1; Art. 18, Para. 2 and Para. 5 of the company's Statute.

9. Authority of the managing bodies of the company, including the right to take decisions on the issuance and redemption of company's shares;

The obligations and responsibilities of the Board of Directors of the company are described in detail in Art. 26, Art. 27 and Art. 28 of the company's Statute.

The company's Statute does not contain special provisions for the right of the Board of Directors to take decisions on the issuance and redemption of company's shares.

If such cases occur, the legal provisions shall be observed.

10. Material contracts of the company which bring about action, are amended or terminated due to a change in the control of the company when making a mandatory tender offering, and the consequences thereof, with the exception of any cases where the disclosure of such information may cause serious damage to the company; the exception under the preceding sentence does not apply to cases where the company is obliged to disclose information pursuant to a law;

There is no information about any contracts which bring about action, are amended or terminated due to a change in the control of the company when making a mandatory public offering.

11. Agreements between the company and its managing bodies or employees for the payment of severance pay or compensation upon discharge without legal grounds or in the event of termination of the employment relationships because of reasons related to a tender offering.

There is no information about agreements between the company and its managing bodies or employees for the payment of severance pay or compensation upon discharge without legal grounds or in the event of termination of the employment relationships because of reasons related to a tender offering.

This report was approved by a decision of the Board of Directors dated 20 March 2012.

Angel Dimitrov
Executive Director
of Bulgartabac-Holding AD

Vencislav Cholakov
Executive Director
of Bulgartabac-Holding AD