



BULGARTABAC
OPEN TO THE FUTURE

INTERIM REPORT

ON THE ACTIVITY OF BULGARTABAC GROUP

AS AT 31 DECEMBER 2015

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

1. Important events, which have occurred during the fourth quarter of 2015, cumulatively for the financial year to date, and their impact on the results reported in the financial statements of the Group

During the fourth quarter of 2015 there have not been any important events that could affect the results reported in the financial statements of Bulgartabac Group.

An important event, which has occurred in a previous period and has an impact on the financial result, is the distribution of dividends for 2014 by Bulgartabac-Holding AD and its subsidiaries.

- At the regular General Meetings of Shareholders held in July 2015 of the subsidiaries Blagoevgrad-BT AD and Sofia-BT AD decisions were passed to distribute dividends for 2014, as follows:

Blagoevgrad-BT AD	BGN 11,000 thousand
Sofia-BT AD	BGN 21,003 thousand
Total:	BGN 32,003 thousand

Out of the dividends approved, the amount of BGN 31,333 thousand is attributable to the parent company Bulgartabac-Holding AD, and the amount of BGN 670 thousand is attributable to the shareholders holding non-controlling interest.

- The regular General Meeting of Shareholders of Bulgartabac-Holding AD, held on 16 July 2015, passed a decision to distribute to the shareholders dividends amounting to BGN 4.20 per share, or the total amount of BGN 30,942 thousand, as follows:
 - BGN 1,731 thousand chargeable to the company's profit for the financial year of 2014; and
 - BGN 29,211 thousand chargeable to Prior Year's Retained Earnings Fund.

2. During the period 01.01.-31.12.2015 the following changes in circumstances have occurred, concerning Group companies:

In September 2015 the subsidiaries Blagoevgrad-BT AD and Sofia-BT AD acquired 45% of the equity shares of Express Logistics and Distribution OOD.

In May 2015, the subsidiaries Sofia-BT AD and Blagoevgrad-BT AD acquired 66% of the equity shares of Baranko OOD.



3. Development of the activity in the fourth quarter of 2015

➤ Tobacco buy-up and industrial processing

The process of negotiation of tobacco of crop 2015 continued in the fourth quarter of 2015 as well and the buy up of tobacco, crop 2015, commenced on behalf and on account of Pleven-BT EAD. Tobacco of the four variety groups manufactured in the country, were bought out. By 31 December 2015 the quantities amounted to 3,040 tons.

During the period 01 January – 31 December 2015, 8,615 tons of finished products were sold within and outside Bulgartabac Group, including within Bulgartabac Group – 5,861 tons and outside the Group – 2,754 tons.

➤ Trade in tobacco

In order to secure the needs of the cigarette factories with Bulgarian tobacco, the finished products – tobacco manufactured by the Group - are object mostly to intra-group transactions.

For the needs of cigarette production tobacco of the variety Virginia and Burley, tobacco stems of the variety Virginia and Burley, and reconstituted tobacco of foreign origin are imported / supplied. 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, Malawi, Argentina, and India. Besides, tobacco of other origin, such as Kenya, Uganda, Guatemala, Italy, etc, is purchased as well. Tobacco stems and reconstituted tobacco with good quality characteristics are bought from different countries and regions.

➤ Trade in tobacco products

Pursuant to the licensing agreements signed with Bulgartabac-Holding AD for provision of licences for trademarks, owned by Bulgartabac-Holding AD, the subsidiaries pay licence fees (royalties), set in a percentage of the retail selling price.

Domestic market of tobacco products

The trade policy pursued by Bulgartabac-Holding AD during the fourth quarter of 2015 is entirely consistent with the market conditions and is subject to the aim of increasing the volumes sold in the domestic market and achieving a growth in the company's market share, and preserving the good image of the Company.

During the fourth quarter of 2015, the volume of finished products sold is by 29.65% higher than that reported for the same period of 2014. The volume sold in 2015 is by 18.73% higher than that in 2014.

According to data of an independent marketing agency, the banderol cigarette market until November 2015 has grown by 12.8% compared to the same period of 2014. The market share of the company in the fourth quarter has grown by 0.3% up to 31.3% and reached the levels reported at the end of 2014 and the beginning of 2015.

During the reporting period, the usual fluctuations in the separate months have been observed; however, in general, we report an upward trend of growth in the market share of cigarettes in the med-price and economic segments, which is primarily due to the reduced levels of contraband products. The trend in consumer preferences is moving towards lower tar and nicotine cigarettes. The segment of 100 mm cigarettes grows up.

The market of tobacco products has remained very dynamic throughout the reporting period and depended on a number of objective factors which have a direct impact on the sales of cigarettes in the domestic market.

Pricing policy and competition

In the fourth quarter of 2015 Bulgartabac carried out certain activities involving the brands positioned in the low- and mid-price segment. Also, the Company continues to support the new products positioned in the high-price segment, launched to the market in April 2015.

There is a very high activity throughout the period in support of the mid- and high-price segments, by both the foreign and local companies.

At the year-end, new prices of all brands of the Company, consistent with the new cigarette excise duties effective from 01 January 2016, were registered.

Unregulated trade

As a result of the measures introduced by the State, there is a considerable decline in the levels of offering of illegal products during the period. The levels of contraband supply of cigarettes are much lower than those observed in previous periods. The price of the offered illegal products amounts up to BGN 33 – BGN 35 per carton. In some regions of the country cut tobacco of an unclear origin and quality is still offered at prices varying from BGN 7 to BGN 10 per 400 – 500 grams.

Financial and economic situation

Due to the increase in consumption of products bearing excise stamps, a large number of stores experience difficulties in forecasting the exact levels of orders and ensuring cash for the purchase of larger volumes of cigarettes, which quite often results in stores running out of stock.

Due to the constantly growing number of brands offered in the market, retailers experience some difficulties in ensuring the full range of products due to limited financial resources. Only the best-selling brands are supplied in limited quantities to the shops with lower levels of turnover.

The stagnation in consumption of FMCG, which is due to the decreased purchasing power of the population, the still high levels of unemployment, the shrank households' expenses, reducing or even quitting smoking as a result of the ban on smoking in public areas, is not yet overcome.



Distribution

Bulgartabac-Holding AD continues to work with one logistics partner of nation-wide coverage, as it was up to now.

The brands of 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

Thanks to its long-term experience and traditions, the products of Bulgartabac Group are well known in the markets of the Balkan countries, and the Far and Middle East regions. The developed solid presence in these regions enables us to sell products of high quality at prices that guarantee a constant net income.

Due to the constantly growing competition of multinational companies and the changing factors at macro- and micro-level, Bulgartabac - Holding AD has devoted considerable efforts to enlarging its market presence. Based on an analysis of international markets, a number of new products were developed and launched to the market, which contribute to the further development of the Company.

Over the last years, Bulgartabac-Holding AD has developed into 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, such as the changing consumer demands, consumer tastes and preferences, and analyses of the consumers' sensitivity to products' prices.

The brands included in the export list of Bulgartabac - Holding AD for 2015 are in full conformity with the customers' wishes, needs and preferences in each region. A special attention has been 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.

In the past year of 2015, Bulgartabac Group considerably increased the effectiveness and loading of its production facilities situated outside the territory of Bulgaria, as a result of which the export of cigarettes from Bulgaria, in terms of volume, scored a slight decline.

Market perspectives:

Based on trade representation contracts, Bulgartabac-Holding AD mediates in the overall process of negotiating, ordering and exporting the respective quantities of cigarettes by the subsidiaries – joint stock companies, by assortments. In this connection:

- Contracts were signed and conversations were held with strategic partners operating well-developed distribution networks in each one of the respective regions;
- During the period under review, the negotiations were finalised and first exports of cigarettes were made to Kazakhstan and Croatia, and new assortments were launched in the markets of the Adriatic region, Egypt, Russia, Taiwan and Japan.
- The capacity of the factory in Bosnia and Herzegovina is used significantly more effectively.

In a short-term perspective, the activity of Bulgartabac-Holding AD will be directed towards:

- Finding new markets for the company;
- Establishing the change in consumer demand with respect to each one of the existing markets and identifying new markets' consumer characteristics;
- Constant portfolio development and renovation in view of (making it compliant with) consumer needs.

➤ **Liquidation procedures of group companies**

At the date of this report, the companies Haskovo Tabac AD and Asenovgrad Tabac AD are undergoing liquidation procedures.

Haskovo Tabac AD - in liquidation

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

The liquidation term was extended several times by decisions of the General Meetings, including at the last General Meetings of Shareholders of the company held on 03 December 2015, at which a decision was passed to extend the term of completion of the company's liquidation by 18 months as of 11 July 2015. The decision was registered with the Commercial Register on 09 December 2015.

Asenovgrad-Tabac AD - in liquidation

At the extraordinary General Meeting of Shareholders of Asenovgrad-Tabac AD, held on 1 September 2011, the following decisions were passed: winding up and announcing the company's liquidation, discontinuing the powers of the Board of Directors, setting a term to complete the liquidation – one year as of the date of announcing the invitation to the creditors to request their receivables, and appointing a liquidator. The decisions for winding up and announcing the company's liquidation, discontinuing the powers of the Board of Directors, setting a term to complete the liquidation and appointing a liquidator were registered with the Commercial Register at the Registry Agency on 5 October 2011. The invitation to the creditors to claim their receivables was registered with the Commercial Register on 26 October 2011. The initial deadline to complete the liquidation was 26 October 2012.

The liquidation term was extended several times by decisions of the General Meetings, including at the last General Meetings of Shareholders of the company held on 03 December 2015, at which a decision was passed to extend the term of completion of the company's liquidation by 18 months as of 22 June 2015. The decision was registered with the Commercial Register on 09 December 2015.

4. Analytical review of comparative data reported on the interim consolidated financial statements of Bulgartabac Group for the period from 1 January to 31 December 2015

I. CONSOLIDATED INCOME STATEMENT

	1.1.2015- 31.12.2015	1.1.2014- 31.12.2014	Change	
	BGN'000	BGN'000	BGN'000	%
Continuing operations				
Revenue	494 020	510 778	(16 758)	(3.28)
Other operating gains and losses, net	11 395	11 560	(165)	(1.43)
Changes in stocks of finished products and work in progress	(22 879)	11 879	(34 758)	-
Costs of materials	(230 816)	(307 827)	(77 011)	(25.02)
Personnel expenses	(62 899)	(73 756)	(10 857)	(14.72)
Depreciation / amortisation expenses	(22 088)	(21 859)	229	1.05
Costs of hired services	(56 368)	(50 978)	5 390	10.57
Book value of goods sold	(27 106)	(22 628)	4 478	19.79
(Accrued)/reversed impairment of assets	(1 596)	(1 639)	(43)	(2.62)
Other operating expenses	(11 175)	(11 803)	(628)	(5.32)
Operating profit	70 488	43 727	26 761	61.20
Investment gains and losses, net	58	(18 321)	18 379	-
Finance costs	(7 466)	(12 077)	(4 611)	(38.18)
Gain on investments accounted for under the equity method	187	-	187	-
Profit before income tax from continuing operations	63 267	13 329	49 938	-
Income tax expense	(6 646)	(3 424)	3 222	94.10
Net profit for the period from continuing operations	56 621	9 905	46 716	-
Discontinued operation				
Gains on discontinued operation after taxes	-	21 216	(21 216)	-
Net profit for the year	56 621	31 121	25 500	81.94
Attributable to:				
The equity owners of the parent company	55 722	31 195	24 527	78.62
Non-controlling interest	899	(74)	973	-



For the period ending 31 December 2015, the financial result of Bulgartabac Group is a profit amounting to BGN 56,621 thousand, including – attributable to the equity owners of the parent company – a profit amounting to BGN 55,722 thousand and to non-controlling interest – a profit amounting to BGN 899 thousand.

If compared with the same period of 2014, the financial result has increased by BGN 25,500 thousand, including an increase for the equity owners of the parent company by BGN 24,527 thousand and an increase for the non-controlling interest by BGN 973 thousand.

The operating profit of Bulgartabac Group for the period 1 January – 31 December 2015 amounted to BGN 70,488 thousand. The increase in the operating financial result for the current period compared to the previous one is by BGN 26,761 thousand (61%).

The pre-tax profit of Bulgartabac Group for the period from 1 January to 31 December 2015 amounted to BGN 63,267 thousand. If compared to the same period of 2014, there is an increase in pre-tax profit by BGN 49,938 thousand, which is due to the compensated effect of:

- the increase in the financial result from operating activity;
- the increase in investment gains and losses, net, by BGN 18,379 thousand;
- the decrease in finance costs vs. the previous year by BGN 4,611 thousand (38%);
- the increase in gains on investments accounted for under the equity method by BGN 187 thousand.

The net profit from continuing operations for the period 1 January – 31 December 2015 amounts to BGN 56,621 thousand and the increase as compared to the same period of 2014 is by BGN 46,716 thousand.

In the previous period the Group realized a gain from discontinued operation amounting to BGN 21,216 thousand.

The net profit for the period amounts to BGN 56,621 thousand and the increase in the net profit as compared to the same period of 2014 is by BGN 25,500 thousand.

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31.12.2015	31.12.2014	Change	
ASSETS	BGN '000	BGN '000	BGN '000	%
Non-current assets				
Property, plant and equipment, incl.	196,765	224,839	(28,072)	(12.49)
Intangible assets	87,189	21,278	65,911	-
Investment property	30,447	341	30,106	-
Investments available for sale	320	320	-	-
Deferred tax assets	1,873	1,451	422	29.08
Investments in entities accounted for under the equity method	155,855	83,136	72,719	87.47
Other non-current assets	7,717	56,613	(48,896)	(86.37)
	480,166	387,978	92,188	23.76
Current assets				
Inventories	90,751	156,603	(65,852)	(42.05)
Receivables from clients and suppliers	131,161	94,292	36,869	39.10
Corporate income tax refundable	406	1,103	(697)	(63.19)
Other current assets	4,940	10,552	(5,612)	(53.18)
Deposits placed with commercial banks	294	-	294	100
Cash and cash equivalents	47,266	25,932	21,334	82.27
	274,818	288,482	(13,664)	(4.74)
Assets classified as held for sale	157	45	112	-
TOTAL ASSETS	755,141	676,505	78,636	11.62



EQUITY AND LIABILITIES

Capital attributable to the equity owners of the parent company

Share capital	7,367	7,367	-	-
Reserves	76,828	76,591	237	0.31
Retained earnings	323,267	301,216	22,051	7.32
	407,462	385,174	22,288	5.79
Non-controlling interest	6,414	4,788	1,626	33.96
Total equity	413,876	389,962	23,914	6.13

LIABILITIES

Non-current liabilities

Long-term payables to financial institutions	58,364	50,702	7,662	15.11
Deferred tax liabilities	7,000	7,316	(316)	(4.32)
Retirement benefit obligations	4,931	5,063	(132)	(2.61)
Other non-current liabilities	1,125	2,537	(1,412)	(55.66)
	71,420	65,618	5,802	8.84

Current liabilities

Payables to suppliers and clients	144,365	91,734	52,631	57.37
Short-term portion of long-term payables to financial institutions	250	1,107	(857)	(77.42)
Short-term payables to financial institutions	23,206	43,725	(20,519)	(77.42)
Tax liabilities	85,149	58,661	26,488	45.15
Corporate income tax payable	1,270	3,401	(2,131)	(62.66)
Other current liabilities	15,605	22,297	(6,692)	(30.01)
	269,845	220,925	48,920	22.14



TOTAL LIABILITIES	341,265	286,543	54,722	19.10
TOTAL EQUITY AND LIABILITIES	755,141	676,505	78,636	11.62

At 31 December 2015, the balance sheet figure of Bulgartabac Group is BGN 755,141 thousand and if compared with the figure as of 31 December 2014 it has grown up by BGN 78,636 thousand (11.62%).

The change in the amounts of Group's assets is due to the increase in non-current assets by BGN 92,188 thousand, as also to the decrease in current assets by BGN 13,664 thousand.

The changes in the Group's equity and liabilities are due to the changes in equity – an increase by BGN 23,914 thousand (6.13%) and an increase in liabilities by BGN 54,722 thousand (19.10%). The change in the Group's liabilities is due to the increase in non-current liabilities by BGN 5,802 thousand (8.84%) and the increase in current liabilities by BGN 48,920 thousand (22.14%).

The increase in equity is due to:

➤ the higher carrying amount of capital attributable to the equity owners of the parent company by BGN 22,288 thousand (5.79%), which is due to the increase in retained earnings by BGN 22,051 thousand (7.32%) and the increase in reserves by BGN 237 thousand (0.31%).

➤ the increase in the carrying amount of non-controlling interest by BGN 1,626 thousand (33.96 %).

5. Major risks and uncertainties faced by Bulgartabac Group companies in 2015

The long-term goals for development of Bulgartabac Holding AD and its subsidiaries are as follows:

- ✓ maintaining a leading market share of the cigarette market in Bulgaria;
- ✓ increasing gradually the export volumes compared to that in the previous year.

The operating goal is to introduce and optimise business projects, processes and activities aiming at improving the overall performance of the company and its results.

Set out below are some of the factors that would have a direct impact on the environment, in which the company will operate in 2015:

- ✓ Legislative measures for restriction of tobacco smoking in public areas and advertising of tobacco products;



- ✓ Stagnation in consumption of FMCG still to be overcome, which is due to the decreased purchasing power of the population, the still high levels of unemployment, and the shrank households' expenses;
- ✓ Highly competitive domestic market environment;
- ✓ Thanks to the measures taken by the government authorities, there is a considerable decline in the levels of contraband products offered to the domestic market during the period;
- ✓ High degree of economic and social uncertainty in some regions, such as the Middle East and Russia;
- ✓ The dynamic economic, market and competitive environment will necessitate certain measures for optimizing and improving the effectiveness of work flows;
- ✓ Bulgartabac Group companies have state-of-the-art 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.

Other risks factors **inherent** to the group companies' activities may be reviewed in the following directions:

Risk factors specific to the raw tobacco buying-out and processing sector

During the first quarter of 2016, the buy up of Bulgarian tobacco, crop 2015, will continue depending on the needs of the Group and the indications for sales outside the Group, and their industrial processing will commence.

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

Risks and uncertainties in the area of tobacco trade

Risks and uncertainties inherent to ensuring and sales of Bulgarian tobacco are due to the observed constant decrease in the manufactured tobacco volumes in the country and the severe competition in its buy-up, which results in higher selling prices and shrinkage in quantities of Bulgarian tobacco free for sale outside Bulgartabac Group.

Risks and uncertainties inherent to the import and supply of tobacco, tobacco stems and reconstituted tobacco depend directly on the international demand and supply, the conjuncture of tobacco markets by regions, the economic development of the countries – tobacco manufacturers and exporters, and on a number of other factors, among which force majeure events and circumstances. Nevertheless, Bulgartabac will continue to actively implement and carry out a flexible trade policy directed towards achieving uninterruptedness of supplies of raw tobacco necessary for the needs of the cigarette production.



Financial risk management

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

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

Financial risk management is described in detail in the notes to the interim consolidated financial statements as of 31 December 2015.

6. Events after the end of the reporting period

The events subsequent to the reporting period have been disclosed in the interim consolidated financial statements for the period ending 31 December 2015.

On the grounds of Art.100o, para.7 of POSA we hereby inform that the interim consolidated financial statements as at 31 December 2015 of Bulgartabac Group have not been certified and audited.

Vencislav Cholakov
Executive Director
of Bulgartabac-Holding AD