

**ANNUAL REPORT ON THE ACTIVITY  
ACCOMPANIED BY  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2010**

## **TABLE OF CONTENTS**

ANNUAL REPORT ON THE ACTIVITY.....	3 PAGE
INDEPENDENT AUDITOR'S REPORT .....	18 PAGE
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 .....	22 PAGE
NOTES TO THE FINANCIAL STATEMENTS .....	29 PAGE

## SELECTED PERFORMANCE INDICATORS

<b>Financial highlights</b>	<b>2010</b>	<b>2009 restated<sup>1</sup></b>	<b>2008 restated<sup>1</sup></b>
Net income (BGN'000), including:	1,083,733	885,308	1,042,016
<i>Light fuel</i>	1,058,296	859,128	813,824
<i>Heavy fuel</i>	9,386	12,565	27,813
<i>Aviation fuel</i>	70	3,109	44,437
<i>Lubricants and other goods</i>	610	753	1,645
Gross margin of goods sold (BGN'000)	19,171	25,515	51,193
EBITDA (BGN'000) <sup>2</sup>	10,978	11,954	178,462
EBIT (BGN'000) <sup>3</sup>	9,413	10,395	176,576
Profit (loss) for the year (BGN'000)	22,916	(203,396)	206,363
Assets (BGN'000)	607,195	499,929	650,031
Debt (BGN'000)	350,352	316,282	305,349
Equity (BGN'000)	61,572	38,656	242,052
Working capital (BGN'000) <sup>4</sup>	(100,876)	262,472	476,676
Working capital (BGN'000) calculated in case of equity increase <sup>5</sup>	99,124	262,472	476,676
Capital expenditure (BGN'000)	4,275	2,563	3,692
<b>Financial ratios</b>	<b>2010</b>	<b>2009 restated<sup>1</sup></b>	<b>2008 restated<sup>1</sup></b>
ROE (%) <sup>6</sup>	45.73	(144.92)	148.60
ROACE (%) <sup>7</sup>	2.18	2.14	47.64
ROA (%) <sup>8</sup>	1.70	1.81	35.28
Debt to Assets ratio (%)	57.70	63.27	46.97

<sup>1</sup> In conjunction with change in accounting policy (see note 26 from the financial statements)

<sup>2</sup> EBITDA - earnings before interest, tax, depreciation and amortization

<sup>3</sup> EBIT - earnings before interest and tax

<sup>4</sup> Working capital is the difference between the current assets and the current liabilities

<sup>5</sup> On held in November, 2010 General meeting of the Shareholders of Petrol AD a decision was taken for providing an in-kind contribution in the equity of Naftex Petrol EOOD, as subject of the contribution is part of receivable under loan agreement at the amount of BGN 200,000 thousand.

<sup>6</sup> ROE (return on equity) is calculated as a ratio between profit (loss) for the year and the average equity

<sup>7</sup> ROACE (return on average capital employed) is calculated by dividing EBIT by the averaged value of the invested capital. The latter is the difference between the total amount of the assets and the current liabilities to third persons (who are not part of the Petrol Holding AD Group).

<sup>8</sup> ROA (Return on assets) is calculated by dividing EBIT by the averaged assets value

Equity to Assets ratio (%)	10.14	7.73	37.24
Current ratio (coefficient) <sup>9</sup>	0.81	2.68	5.45
Current ratio (coefficient) calculated in case of equity increase <sup>5</sup>	1.29	2.68	5.45
Accounts receivable collection period (in days) <sup>10</sup>	8	16	12

Operating data	2010	2009	2008
Market share (%)	20	20	14
Total number of own fuel storage facilities	35	34	34
Fuel storage facilities operating during the period	14	14	14
Number of clients	788	2,283	1,788
Number of personnel	285	284	280

<sup>9</sup> Current ratio is the ratio between the current assets and the current liabilities

<sup>10</sup> Accounts receivable collection period is the ratio between the trade receivables and the income multiplied by 365 days

**STATEMENT OF THE MANAGEMENT**

Dear Ladies and Gentlemen,

Naftex Petrol EOOD (the Company) is a company concerned with wholesale trade and storage of petroleum products, which has 35 own fuel storage facilities located throughout the country. The Company operates 12 fuel storage facilities (11 of its own and one owned by Petrol AD) for distribution of petroleum products, 2 of the facilities are leased out and the remaining facilities belong to the group of the so-called "reserve" storage facilities.

The Company is a licensed warehouse holder under the *Excise Duties and Tax Warehouses Act* (EDTWA) and as of December 31, 2010 holds licenses for 4 fuel storage facilities, which provide opportunity for temporary suspension of excise duty taxation. The decrease in the number of licensed tax warehouses is due to the sufficient investments needed to conform with the requirements of the *Ordinance 3 for the specific requirements and control, performed by the customs authority over the measuring devices of excisable goods*. At the end of 2010 the Company holds licenses under the *Mandatory Stocks of Crude Oil and Petroleum Products Act (MSCOPPA)* for tanks with total capacity of 174,000 m<sup>3</sup>, situated in 7 of the operating fuel storage facilities, allowing storage of fuels under the same law.

The Company relies on uncompromising quality of the fuels offered, guaranteed by 4 laboratories, through which strict control and quality analysis of fuel and petroleum products are carried out.

In 2010 Naftex Petrol EOOD meeting the requirements of *Ordinance 3 for the specific requirements and control, performed by the customs authority over the measuring devices of excisable goods* constructed in the tax warehouses Ruse, Pleven, Burgas and Varna automated measuring and gauging systems, which through integrated communication system to transfer data electronically to the Custom's information system.

The Company has commenced reconstructing of part of Plovdiv fuel storage facility – tanks repairs, installation of internal floating roofs, gauging system, pumping stations, rail trestle, which part will be separated in a detached licensed tax warehouse under EDTWA intended for storage of fuels under MSCOPPA in implementation of the strategy for development of this kind of activity.

In 2010 scheduled tank repairs were carried out at Kaspichan and Pleven fuel storage facilities. Internal floating roofs were fitted and a coat was laid on the repaired tanks in compliance with the *Ordinance No 16 on the control of volatile organic compound emissions resulting from the storage, loading and unloading, and transportation of gasoline*.

I would like to thank our clients for the confidence they have in us. I would like to thank my colleagues for the shared values and efforts in achieving the common goal of lasting growth. The Company's team has fulfilled its plans and participates in the projects implementation clearly aware that the best guarantee for the success of Naftex Petrol EOOD is the mutual trust between our partners and us.

Yordan Georgiev  
Manager

May 5, 2011



## COMPANY'S PROFILE

The Company was registered in 1999 in Sofia. Later on the Company's headquarter was moved to Varna according to Court Decision No. 427/2001 of Varna District Court. The Company's register office is at 22 A, Bratya Miladinovi Str., Varna. As from April 6, 2005 Petrol AD is a sole owner of the Company's capital.

Naftex Petrol EOOD is a company from the business group of Petrol Holding AD. The Company is a well-established market leader since 2001, specialized in fuel and petroleum products import, storage and wholesale. The Company operates 12 fuel storage facilities, situated all over the country, through which it directly sells fuel and petroleum products. Apart from distribution, the Company provides complex services such as fuel storage, tanker handling and laboratory analyses. For its customers' convenience, the Company offers electronic ordering and information, transportation of products to the customer's warehouse; there is a possibility for deferred payment and cash payment at the fuel storage facilities directly prior to dispatch.

The main lines of business of Naftex Petrol EOOD could be summarized as follows:

- Import of gasoline, diesel oil and gas oil;
- Wholesale in all types of fuels in the country;
- Distribution of lubricants and other goods in the country;
- Fuel storage under the MSCOPPA and outside it;
- Tankers handling
- Laboratory analyses

Additional services for the customers' complex servicing are:

- Transportation to the customer's warehouse;
- Internet services electronic system;
- Opportunity for cash payment on the territory of the fuel storage facility;
- Deferred payment under specific conditions.

Company's mission is to achieve a sustained growth in cooperation with customers, acting with responsibility to customers, partners, employees and the society as a whole.

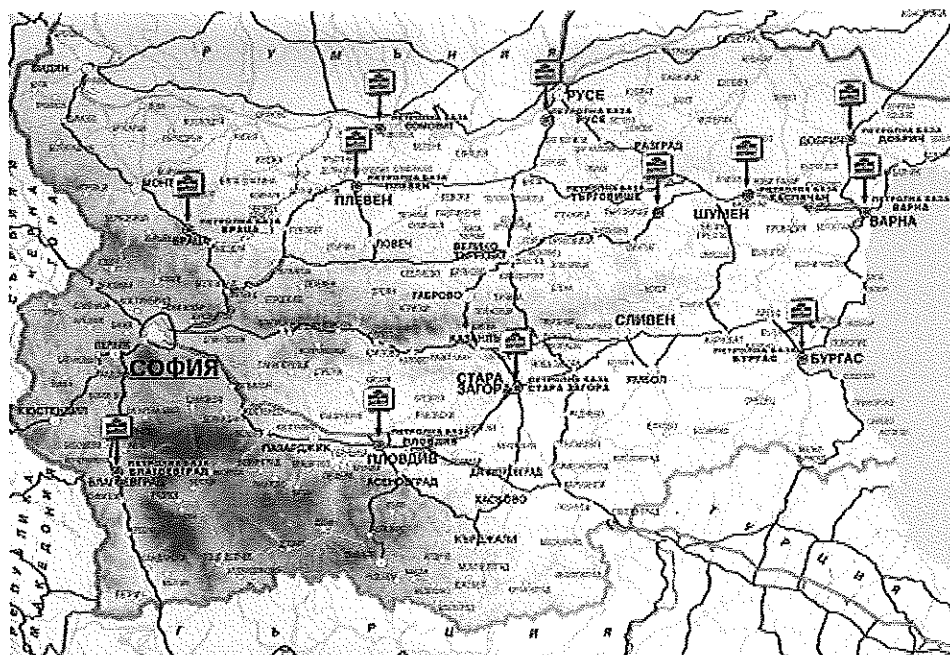
The Management of Naftex Petrol EOOD relies on:

- Maintaining of uncompromising quality of the fuels and petroleum products;
- Open trading policy and transparency of pricing;
- Keeping a high standard to satisfy the customers through optimizing the trade processes;
- Investments in technical equipment for the environmental protection.

Naftex Petrol EOOD has one of the widest distribution networks for wholesale of fuels in the country - 12 fuel storage facilities operate actively and 2 fuel storage facilities are leased out. The Company operates 4 quality control laboratories as the laboratory at Varna fuel storage facility holds accreditation.

The operating fuel storage facilities have a potential to secure large volumes of sales and have been selected by the following criteria:

- Strategic location – built-up areas with large population, storage facilities near the Black Sea ports and the Danube;
- Technical and technological equipment;
- Infrastructure connected to the national road network.



At the end of 2010 the Company has registered tanks for storage of diesel fuel, gasoline and heating oil with total capacity of 170,000 m<sup>3</sup>. According to the requirements of MSCOPPA, tank capacities at Ruse, Kaspichan, Pleven, Stara Zagora, Varna, Burgas and Plovdiv fuel storage facilities were registered, allowing storage of fuels under the same law.

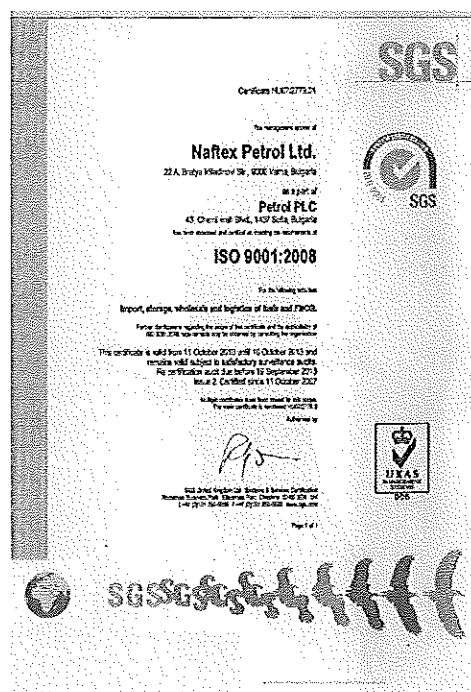
The registered capacities under MSCOPPA in cubic meters by types of fuel in 2010 are presented in the following table:

Fuel storage facility	Gasoline	Industrial gas oil	Diesel fuel	Heating oil	Total
Burgas	10,000	-	15,000	-	25,000
Varna	10,000	-	25,000	-	35,000
Ruse	1,000	2,000	21,000	-	24,000
Kaspichan	7,000	-	12,000	-	19,000
Pleven	25,000	2,000	20,000	-	47,000
Plovdiv	5,000	-	10,000	-	15,000
Stara Zagora	2,000	-	2,000	5,000	9,000
<b>Total</b>	<b>60,000</b>	<b>4,000</b>	<b>105,000</b>	<b>5,000</b>	<b>174,000</b>

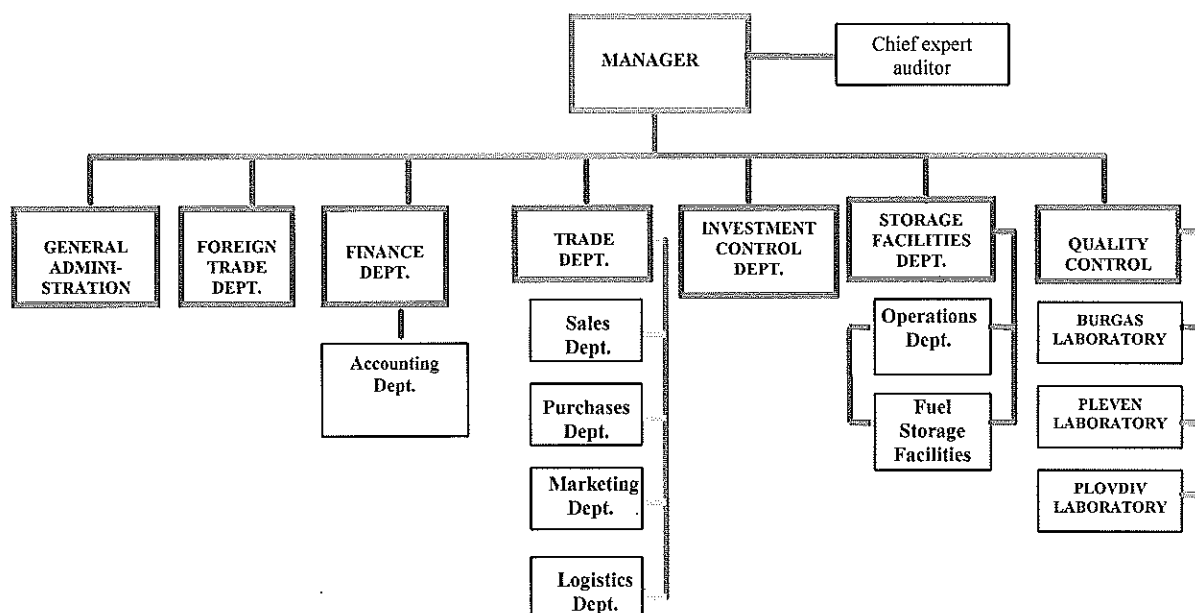
In the beginning of 2011 new capacities in Plovdiv fuel storage facility were registered – 40,000 m<sup>3</sup> of gasoline and 100,000 m<sup>3</sup> of diesel fuel. As of the date of issuance of the annual report the Company has total registered capacity of 314,000 m<sup>3</sup> under MSCOPPA.

Naftex Petrol EOOD is a licensed warehouse holder under the EDTWA and as of December 31, 2010 holds licenses for 4 fuel storage facilities in Varna, Burgas, Pleven and Ruse, which provide opportunity for temporary suspension of excise duty taxation. After the licensing of the Plovdiv fuel storage facility, the Company is going to terminate the licenses for Ruse and Pleven fuel storage facilities.

Naftex Petrol EOOD is ISO 9001:2000 certified as in 2010 is ISO 9001:2008 recertified.



Organizational and management structure of the Company are shown on the following diagram:





## COMPANY'S PERFORMANCE REVIEW

### 1. Market environment analysis

The economic crisis and the rising fuel prices are among the main reasons leading to drop in the fuel consumption in 2009 and 2010 in the country. With the economic recovery in short and medium term plan the consumption is expected to resume its upward trend typical of the years preceding the crisis. In longer term plan the consumption in the country is expected to continue following its upward trend. One of the major leading factors is the potential growth of the motor car fleet in the country and South-East Europe as a whole, since in this region the number of cars per thousand people is twice lesser compared to West-European countries.

With relation to product mix, during the last couple of years the fuel market in Bulgaria witnessed a shift of consumption from all types of gasoline to diesel oil and LPG. The extended diesel oil consumption is accounted for by modern diesel-engines entering the market, as well as the increasing use of diesel in transport industry. The relative share of the diesel fuel is above 50% from the total fuel consumption in the country.

Being dependent on the crude oil and petroleum products quotations on the international markets, fuel prices are characterized by high dynamics and volatility. After 2008, which was marked with a significant increase of the prices in the first eight months and with a dramatic slump in the last months, in 2009 and 2010 an upward tendency in prices has been seen. The fuel wholesale prices are significantly influenced by the pricing of Lukoil Neftochim Burgas AD, as a sole producer in the country.

Key participants in the Bulgarian wholesale market are Naftex Petrol EOOD, Rompetrol Bulgaria AD, OMV Bulgaria EOOD and Lukoil Bulgaria EOOD - the exclusive distributor of the products of Lukoil Neftochim Burgas AD. In the last few years the share of realized imported fuels tends to increase and for 2010 it is about 40%.

Regulations regarding excise legislation and environmental protection require significant capital investments which together with the requirements of the MSCOPPA, they put serious barriers against the entry of new participants on the wholesale market. These requirements also impede small and medium sized market participants to import fuels.

In 2010 *Ordinance 3 for the specific requirements and control, performed by the customs authority over the measuring devices of excisable goods* came into force. The ordinance obligates the licensed warehouse holders under EDTWA to provide in its tax warehouses measuring and control devices, which to transfer data electronically to the automated accounting systems of the warehouse keepers and to the information system of the Customs Agency. In compliance with the Ordinance the warehouse keepers must install automated measuring and gauging systems, which through integrated communication system for monitoring and control, to transfer data from them electronically to the information system of Customs Agency.

Since January 1, 2007 when Bulgaria joined to the EU, the requirements on the quality of the offered petroleum products and the ecological standards have been considerably heightened. According to the *Ordinance on Requirements for the Liquid Fuel Quality, the Conditions, the Procedure and the Method of Control over Liquid Fuels* as from January 1, 2009 the diesel motor fuel and the motor gasoline must be with a maximum sulphur content of 10 mg/kg (10 ppm). Additional requirements are imposed under the *Renewable and Alternative Energy Sources and Biofuel Act*, as from 1 March, 2010 blending of the liquid fuels of crude oil origin consumed in the transportation sector with biofuel must commence by stages.

## 2. Operating results

The revenue of Naftex Petrol EOOD is generated from sales of goods and rendering of services. The Company forms its revenue mainly by the following lines of business:

- Import of gasoline, diesel fuel and industrial gas oil;
- Sale of all types of fuels in the country;
- Distribution of lubricants and other products in the country;
- Storage under MSCOPPA;
- Storage and dispatch of fuels, lubricants and other goods besides MSCOPPA
- Tankers handling
- Laboratory analyses

In 2010 the revenue from sales of the Company is at the amount of BGN 1,081,078 thousand compared to BGN 884,400 thousand in 2009, showing 22% increase. The major part of the sales revenue in 2010 is formed from sales of goods. Its amount is BGN 1,068,362 thousand compared to BGN 875,555 thousand in 2009, as its relative share retain within 99%. The revenue from sales of goods consists almost entirely from sales of fuels (99%).

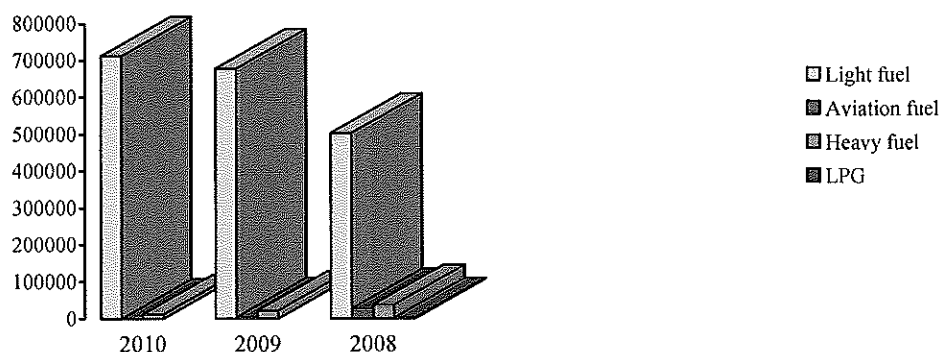
In 2010 the revenue from sales of fuels increased compared to the previous year amounting to BGN 1,067,752 thousand. For comparison, in 2009 its amount was BGN 874,802 thousand. The increase is 22% and it is mainly due to the raise in the fuel average selling prices.

The sales revenue by major types of fuels is presented in the following table:

Fuel type	Unit	2010	2009	2008
Light fuel	thousand litres	712,171	678,444	502,823
Aviation fuel	ton	35	3,491	26,811
Heavy fuel	ton	11,838	21,230	37,535
LPG	ton	-	-	1,661

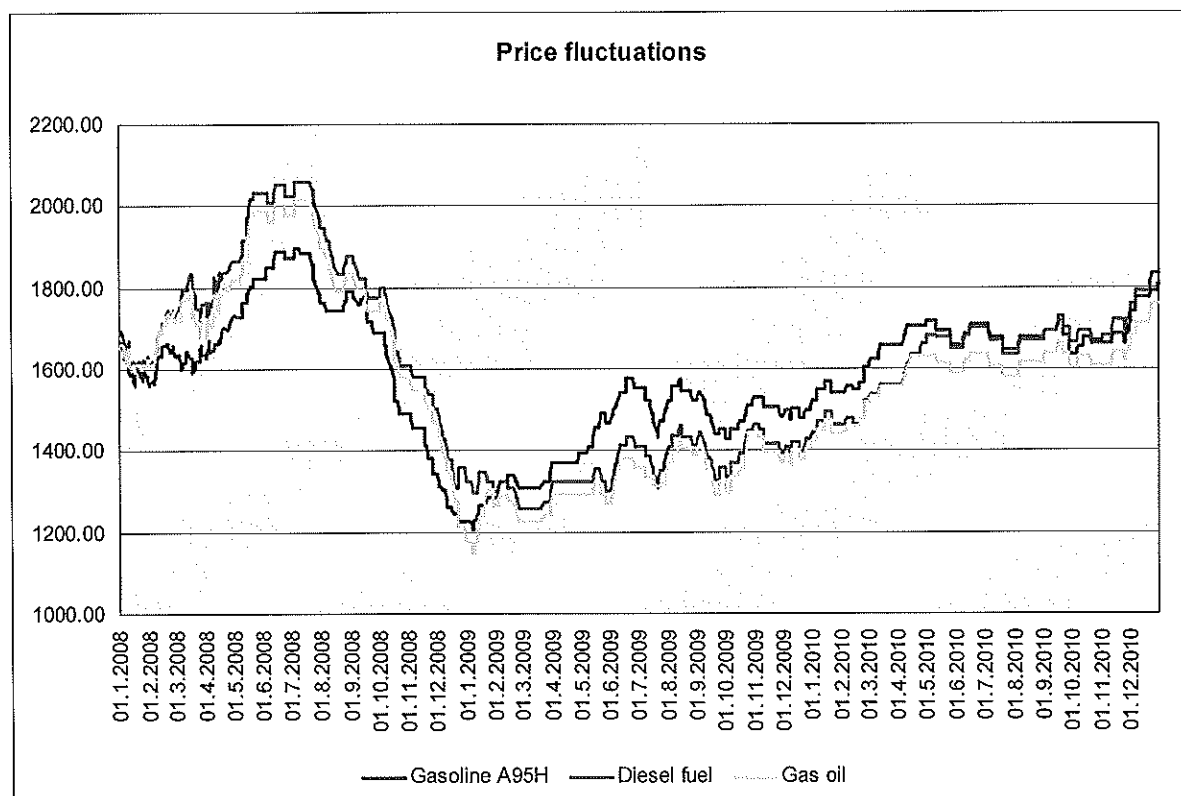
## 2. Operating results (continued)

Sales structure



In 2010 the volumes of light fuels sold continued their upward trend from the previous years, but considerably slowly as the increase in 2010 compared to 2009 is 5%. For comparison in 2009 against 2008 the increase is 35%. The drop in the sales of aviation fuel (jet) and heavy fuels is a result of termination of both the aircraft refuelling and vessels bunkering activities. In 2009 Naftex Petrol EOOD suspended the sales of LPG.

The sales revenue of light fuels grew by 23% reaching BGN 1,058,295 thousand compared to BGN 859,128 thousand in 2009. The main reason was an increase in the average selling prices in 2010 compared to 2009 - by 15% of gasoline and by 19% of diesel fuel. The increase is due to the higher average selling prices on the international markets. The pricing policy of Lukoil Neftochim Bourgas AD is traditionally bound to pricing of the sector and also affects selling prices .



## 2. Operating results (continued)

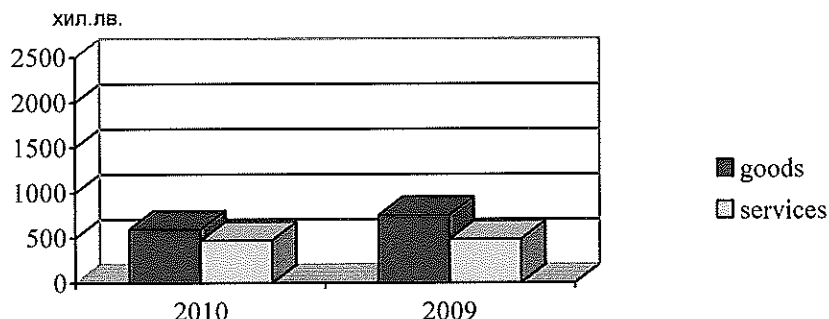
In 2010 an increase in the sales of diesel fuel and a decrease in the sales of gasoline are seen. The relative share of the sales revenue of diesel fuel in the total sales revenue of light fuels is 70% against 65% in 2009. The rest 30% are distributed between the sales of gasoline and gas oil in the same proportion of 95% and 5% respectively.

Until June 2009 the main fuel supplier had been Lukoil Bulgaria EOOD. With the contract expiration, Naftex Petrol EOOD changed its logistic scheme. The supplies are provided predominantly by import under contracts with suppliers from Greece, Romania, Turkey, Israel and Italy as well as Bulgarian importers, part of the business group of Petrol Holding AD. The import is carried out through the ports of Varna and Burgas.

Due to termination of the aircraft and vessels refuelling activities, the Company did not import aviation fuel and heavy fuel in 2009 and 2010.

Bulk and packaged lubricants are sold from the fuels storage facilities, as the realized quantities of bulk lubricants are residual from preceding years. The supplies of bulk lubricants were terminated by reason of the high requirements of the customs and excise legislation. As a result of this, as well as the terminated realization from Pleven and Burgas fuel storage facilities, the revenue from the sale of lubricants decreased by 19% compared to 2009. Direct sales of packaged goods are carried out to correct payers franchisees of Petrol AD and other final clients. The revenue from rendering of services related to storage and dispatch of packaged products remained at the level of the previous year.

Structure of the revenue from sale of of bulk and packaged lubricants and other goods and related services



The gross margin of goods sold decreased from 2.91% in 2009 to 1.79% in 2010.

In 2010 the trend for increase in revenue from rendering of services continued. The rise of 44% - from BGN 8,845 thousand in 2009 to BGN 12,716 thousand in 2010, is due to higher revenue from storage under MSCOPPA and tankers handling. The realized growth is consistent with the adopted strategy for development of storage activities as one of the main lines of business of Naftex Petrol EOOD.

## 2. Operating results (continued)

The operating expenses of the Company in 2010 are at the amount of BGN 25,129 thousand and remain close to the same in 2009. As a result of change in the Company's accounting policy, since the beginning of the year, penalties related to delayed payments are accounted for as interest costs. The restated operating expenses in 2009 are at the amount of BGN 24,873 thousand. The increase in the operating expenses by 1% in 2010 compared to 2009 is due to the rise in the materials expenses and the hired services expenses.

In 2010 the material expenses grew up by 20% from BGN 589 thousand in 2009 to BGN 708 thousand as a result of the higher expenses on spare parts, electricity, advertising materials, heating fuel preheating in conjunction with rendered service of storage and dispatch of heating fuel owned by a counterparty. The expenses on office consumable, work cloth and water reported a decrease.

The expenses on hired services in 2010 rose by 1% compared to 2009, and a change in their structure was seen. During the year the taxes and commissions expenses went down by 44% mainly as a result of the terminated aircraft refueling activity. The reported decline in expenses related to software licenses and communications is 13% and 43% respectively. An increase of 42% was seen in connection with the repairs and maintenance of fuel storage facilities. Security and rent costs related to the headquarters of the Company also grow.

In 2010 there was no significant change in the number and the payment to the personnel, as a result of which the employee benefits expenses remained close to their amount in 2009.

In 2010 the other expenses decreased by 4% from BGN 3,008 thousand to BGN 2,885 thousand. As a result of the investments made in internal floating roofs, hydrocarbon vapour recovery units and video surveillance systems at the fuel storage facilities during the last few years, the fuel wastage and losses showed stable downward tendency. The decrease in 2010 is by 4% to BGN 2,131 thousand compared to BGN 2,217 in 2009.

The Company reports an operating profit before interest, taxes, depreciation and amortization (EBITDA) at the amount of BGN 10,978 thousand.

### 3. Financial position

The main ratios, describing the financial position of Naftex Petrol EOOD are presented in the *Selected performance indicators section*.

Company's major capital requirements consist of general working capital needs and service of indebtedness. The Company's sources of liquidity include cash balances, short-term and long-term borrowings and optimization of the average inventory turnover period, receivables collection and payables payment period.

As of December 31, 2010 the Company's working capital is negative at the amount of BGN 100,876 thousand. The reason is the reclassification in the financial statements from long-term to short-term of interest-bearing loan from Petrol AD with maturity in 2011 at the amount of BGN 304,989 thousand. For comparison as of December 31, 2009 the working capital is at the amount of BGN 262,472 thousand.

On held in November 2010 extraordinary General Meeting of the Shareholders of Petrol AD a decision was taken for providing an in-kind contribution in the equity of Naftex Petrol EOOD. Subject of the contribution is part of a receivable under loan agreement at the amount of BGN 200,000 thousand. As of the date of the report the increase is entered into the Trade Register.

The decrease in the working capital is due to the higher amount of the trade and other receivables. A rising is seen in payables to suppliers (by BGN 10,735 thousand), related parties payables (by BGN 19,514 thousand), tax payables (by BGN 4,052 thousand) and advances received (by BGN 15,735 thousand).

In 2010 the Company's assets rose by BGN 21,537 thousand, as a result of an increase in fair value of the short-term financial assets (by BGN 44,314 thousand), inventories (by BGN 14,241 thousand) and recoverable taxes (by BGN 104 thousand) and the decrease in interest-bearing loans granted ( by BGN 18,845 thousand), trade and other receivables (by BGN 14,048 thousand) and cash and cash equivalents (by BGN 4,229 thousand).

Liquidity, solvency, inventory turnover period and receivables collection period are important measures of the Company's financial stability. The current liquidity in 2010 decreased to 0.81 compared to 2.68 for 2009 as a result of the increase in the current liabilities mentioned above. In 2010 the Company reduced its accounts receivable collection period by half from 16 to 8 days. The inventories turnover in 2010 is 10 days.

The Company's debt in 2010 went up by BGN 34,070 thousand due to the increase in the interest-bearing loans to related parties and the sale and leaseback agreement concluded for one of the reserve fuel storage facilities. As a result of the increase of the Company' assets by BGN 107,266 thousand Debt to Assets ratio went down to 57.70% compared to 63.27% for 2009.

The Equity to Assets ratio improved from 7.73% for 2009 to 10.14% for 2010 due to the realized profit from the Company.

#### 4. Human resources

The Company's policy is to ensure equal opportunities under equal other conditions, for the selection and career growth in professional and qualification aspects of the best workers and employees. The senior staff at each management level is responsible for the training and development of the personnel of the respective structural units. The Company encourages and supports workers and employees who show interest and initiative for self-training and education. Proposals are made and the annual budget for the necessary training courses in the next year is worked out on yearly basis. The training courses conducted in 2010 amount to BGN 11 thousand and are predominantly related to the implementation of new technologies at the fuel storage facilities.

A human resources management system was introduced and currently operates in the Company. The system, being a combination of rules and procedures on the work process performance, contributes to the progress of the Company's business as clearly defines and distinguishes the responsibilities of the different management levels. The system prescribes annual appraisal of the work performance carried out by the direct manager, which includes assessment of results, professional competency, work quality, use and maintenance of the Company's resources, as well as personal qualities.

The number of the personnel as of December 31, 2010 is 285, as the average number of the personnel for 2010 is 270, from which 94 woman. The average age of the personnel of the Company is 46.5 years. The structure of the personnel by education: 30.13% with higher education; 65.06% with secondary and secondary special education; 2.72% with college education; 2.05% with primary education.

In 2010 the level of the average monthly salary of the Company is BGN 976, as it remained close to 2009 – BGN 947.

## **5. Business risks management**

One of the main operational risks for the Company arises from the long-standing practice of using only the prices of the manufacturer Lukoil Neftochim Burgas AD for the purposes of fuel pricing. The Company's management strives to cease this long-standing practice and to impose daily pricing on the local wholesale market, reflecting the actual fuel supply and demand. Binding selling prices with the international market and achieving fast turnover of traded goods is a condition for realization of positive financial operating results.

Other market risks, to which the Company is exposed to, are emerging competitors, increase in the number of fuel importers, fluctuations of oil prices on the international market, etc. The Company holds a steady competitive position due to the fact that it possesses one of the largest networks for distribution of petroleum products in the country consisting of strategically located fuel storage facilities and the potential for significant investments. These advantages, as well as the recognition of Naftex Petrol EOOD as one of the largest fuel importers, are the basis for the Company's stable position in the sector.

Financial risks which the Company is exposed to, are discussed in detail in Note 24 to the financial statements as of December 31, 2010.

## **6. Events after the reporting period**

The events after the date of preparation of the annual financial statements are described in Note 28.



## **FUTURE DEVELOPMENT PROSPECTS**

Naftex Petrol EOOD will continue to develop its activities in two main lines of business - wholesale and storage of fuels.

In wholesale, the efforts will be focused on expanding Company's market presence by achieving a continuous growth in volume of sales by increasing the volume of fuels sold to existing and new customers. The goal is, by providing high quality fuels and building relationships with customers based on mutual trust, Naftex Petrol EOOD to become a preferred supplier for the wholesalers and retailers operating on the territory of Bulgaria. Fuels will be mainly imported ensured by the strategic location of some fuel storage facilities operated by the Company (mainly in Burgas and Varna), as well as good communication and established trade relationship with distinguished international suppliers.

The Company's will continue to develop the storage of fuel. A prerequisite for that development remains the undeniable competitive advantage of the Company, deriving from the large storage capacity and the legal requirements imposed by MSCOPPA.

In order to achieve the above mentioned goals, the Management intends to continue investments in modernization, replacement and reconstruction of machinery and equipment located at the fuel storage facilities. Budgeted investments will result not only in adherence to the environmental requirements but also to reduction of technological losses from equipment operation.

In the field of human resources management, the priority will remain focused on development of professional skills. It will be achieved through implementation of planned staff training.

***INDEPENDENT AUDITOR'S REPORT***

*This document is a translation of the original in Bulgarian text,  
in case of divergence the Bulgarian text is prevailing.*

## INDEPENDENT AUDITOR'S REPORT

To the Owner of  
Naftex Petrol EOOD

### Report on the financial statements

1. We have audited the accompanying financial statements of Naftex Petrol EOOD (the "Company"), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the financial statements*

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

3. Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност (private company limited by guarantee), регистрирано в Обединеното кралство, както и към мрежата от дружества - членове, всяко от които е юридически самостоятелно и независимо лице. За детайлна информация относно правната структура на Делойт Туш Томацу Лимитид и дружествата - членове, моля посетете [www.deloitte.com/bg/za\\_nas](http://www.deloitte.com/bg/za_nas).

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4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### *Basis for qualified opinion*

6. As disclosed in Note 11 and Note 18 to the accompanying financial statements, the Company has bought shares of the Parent Company traded on the Bulgarian Stock Exchange (BSE), presented as of December 31, 2010 and 2009 as current financial assets of BGN 363,645 thousand and BGN 319,331 thousand, respectively, and has also recognized gain for 2010 and loss for 2009 from transactions with financial assets at the amount of BGN 44,314 thousand and BGN 183,509 thousand, respectively, resulting from valuation of these financial assets at market price as of the date of the statement of financial position and dealing throughout the year. In addition, as disclosed in Note 28, after the reporting date the Company has recorded an impairment loss on these current financial assets amounting to BGN 54,455 thousand. As the volume of shares traded on BSE, excluding transactions between related parties, is relatively insignificant in relation to the total volume of purchased shares, the prices used may not be representative for the purposes of the measurement of the investment to fair value and the reported results from their valuation and dealing in 2010 и 2009. As a result, we were unable to satisfy ourselves through other independent sources whether the current financial assets as of December 31, 2010 and 2009 at the amount of BGN 363,645thousand and BGN 319,331 thousand, respectively, and the resulting gain for 2010 and loss for 2009 from their valuation and dealing of BGN 44,314 thousand and BGN 183,509 thousand, respectively, and the related effects and disclosures thereon are fairly presented in the financial statements.

#### *Qualified Opinion*


7. In our opinion, except for the effects on the financial statements of the matters discussed in paragraph 6 above, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and of its financial performance and its cash flows for the year then ended, in accordance with IFRS, as adopted by the European Union.

**Report on other legal and regulatory requirements – Annual report on the activities of the Company according to article 33 of the Accountancy Act**

8. Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4, we have read the accompanying Annual report on the activities. The Annual report on the activities of the Company, prepared by the Company's management is not a part of the financial statements. The historical financial information, presented in the Annual report on the activities of the Company, prepared by the management, is consistent, in all material respects, with the financial information, disclosed in the annual financial statements of the Company as of December 31, 2010, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual report on the activities of the Company, dated May 5, 2011.

*Deloitte Audit*

Deloitte Audit OOD

  
Sylvia Peneva  
Managing Director  
Registered Auditor



Sofia  
May 9, 2011

***FINANCIAL STATEMENTS***  
***AS OF DECEMBER 31, 2010***

# STATEMENT OF COMPREHENSIVE INCOME

## For the year ended December 31, 2010

	Note	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated
Revenue	4	1,081,078	884,400
Other income	5	2,655	908
Cost of goods sold		(1,049,191)	(850,040)
Materials and consumables	6	(708)	(589)
Hired services	7	(15,446)	(15,338)
Employee benefits expenses	8	(4,537)	(4,579)
Depreciation and amortisation expenses	13	(1,565)	(1,559)
Impairment of assets	9	12	200
Other expenses	10	(2,885)	(3,008)
Finance income	11	49,617	2,104
Finance costs	11	(38,389)	(217,771)
Profit (loss) before taxation		20,641	(205,272)
Income tax benefit	12	2,275	1,876
<b>Profit (loss) for the year</b>		<b>22,916</b>	<b>(203,396)</b>
<b>Total comprehensive income for the year</b>		<b>22,916</b>	<b>(203,396)</b>

These financial statements have been approved on behalf of Naftex Petrol EOOD by:

Yordan Georgiev  
Managing Director

May 5, 2011

Vesselinka Zlateva  
Chief Accountant

Sylvia Peneva  
Registered auditor

May 9, 2011



(The accompanying notes from page 29 to page 68 are an integral part of these financial statements)

# STATEMENT OF FINANCIAL POSITION

## As of December 31, 2010

	<i>Note</i>	<b>December 31, 2010 BGN'000</b>	<b>December 31, 2009 BGN'000 restated</b>	<b>January 1, 2009 BGN'000 restated</b>
<b>Non-current assets</b>				
Property, plant, equipment and intangible assets	13	46,918	44,217	43,591
Investments in subsidiaries	14	46,404	-	-
Investments in associates	14	-	22,094	22,094
Interest-bearing loans granted	16	34,902	-	-
Compulsory stock	15	34,939	13,398	442
Deferred tax assets	12	3,739	1,464	-
Total non-current assets		<u>166,902</u>	<u>81,173</u>	<u>66,127</u>
<b>Current assets</b>				
Inventories	15	35,195	20,954	21,127
Interest-bearing loans granted	16	9,239	28,084	-
Trade and other receivables	17	27,128	41,176	37,744
Short-term financial assets	18	363,645	319,331	503,520
Recoverable income tax	19	104	-	6,000
Cash	20	4,982	9,211	15,513
Total current assets		<u>440,293</u>	<u>418,756</u>	<u>583,904</u>
<b>Total assets</b>		<u><b>607,195</b></u>	<u><b>499,929</b></u>	<u><b>650,031</b></u>
<b>Equity</b>				
Share capital	21	62,757	62,757	62,757
Retained earnings		<u>(1,185)</u>	<u>(24,101)</u>	<u>179,295</u>
Total equity		<u>61,572</u>	<u>38,656</u>	<u>242,052</u>
<b>Non-current liabilities</b>				
Interest-bearing loans	22	4,454	304,989	299,781
Deferred tax liabilities		<u>-</u>	<u>-</u>	<u>970</u>
Total non-current liabilities		<u>4,454</u>	<u>304,989</u>	<u>300,751</u>



# STATEMENT OF FINANCIAL POSITION

## As of December 31, 2010

	Note	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated	January 1, 2009 BGN'000 restated
<b>Current liabilities</b>				
Trade and other payables	23	195,271	144,877	101,455
Interest-bearing loans	22	345,898	11,293	5,568
Income tax payable	19	-	114	-
Derivative liabilities		-	-	205
Total current liabilities		541,169	156,284	107,228
Total liabilities		545,623	461,273	407,979
Total equity and liabilities		607,195	499,929	650,031

These financial statements have been approved on behalf of Naftex Petrol EOOD by:

Yordan Georgiev  
Managing Director

May 5, 2011



Vesselinka Zlateva  
Chief Accountant

Sylvia Peneva  
Registered auditor

May 9, 2011



(The accompanying notes from page 29 to page 68 are an integral part of these financial statements)

**STATEMENT OF CHANGES IN EQUITY**  
For the year ended December 31, 2010

	Share capital	Retained earnings	Total
	BGN'000	BGN'000	BGN'000
Balance as of January 1, 2009	62,757	179,295	242,052
Loss for the year	-	(203,396)	(203,396)
Balance as of December 31, 2009	62,757	(24,101)	38,656
Profit for the year	-	22,916	22,916
Balance as of December 31, 2010	62,757	(1,185)	61,572

These financial statements have been approved on behalf of Naftex Petrol EOOD by:

Yordan Georgiev  
Managing Director

May 5, 2011

Sylvia Peneva  
Registered auditor

May 9, 2011



Vesselin Zlateva  
Chief Accountant



(The accompanying notes from page 29 to page 68 are an integral part of these financial statements)

# STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated
<b>Cash flows from operating activities</b>		
Proceeds from customers	1,156,269	1,020,339
Payments to suppliers	(709,841)	(620,662)
VAT and excise duty refunded from the state budget	65	2,822
VAT and excise duty paid to the state budget	(431,499)	(351,222)
Payments to employees	(4,236)	(4,521)
Cash generated from operations	10,758	46,756
Income tax paid	(218)	(18)
Net cash generated by operating activities	10,540	46,738
<b>Cash flows from investing activities</b>		
Payments for financial assets held for trading	-	(181)
Proceeds from sale of financial assets held for trading	-	861
Payments for purchase of property, plant and equipment	(3,917)	(2,224)
Proceeds from sale of property, plant and equipment	37	315
Interest-bearing loans granted, net	(35,843)	(28,084)
Interest received	985	935
Cash flows from dealing with derivatives, net	(121)	(1,180)
Dividends received	260	766
Net cash used in investing activities	(38,599)	(28,792)

# STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	29,277	19,863
Repayment of borrowings	-	(4,604)
Interest and commissions paid	(5,364)	(25,881)
Net cash from (used in) financing activities	23,913	(10,622)
<b>Net (decrease) increase of cash for the year</b>	<b>(4,146)</b>	<b>7,324</b>
<b>Cash at the beginning of the year</b>	<b>9,117</b>	<b>2,364</b>
Foreign exchange rate losses	(138)	(571)
<b>Cash at the end of the year (see note 20)</b>	<b>4,833</b>	<b>9,117</b>

These financial statements have been approved on behalf of Naftex Petrol EOOD by:

Yordan Georgiev  
Managing Director

May 5, 2011



Vesselinka Zlateva  
Chief Accountant

Sylvia Peneva  
Registered auditor

May 9, 2011



(The accompanying notes from page 29 to page 68 are an integral part of these financial statements)

***NOTES TO THE FINANCIAL STATEMENTS***

***AS OF DECEMBER 31, 2010***

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**1. Legal status**

Naftex Petrol EOOD (the Company) is registered in 1999 in Sofia. According to the court decision from 2001 the Company's headquarters was relocated to Varna with registered address 22A Bratya Miladinovi Street. Effective from April 6, 2005 the sole owner of the Company is Petrol AD (see also Note 21).

The main activities of the Company relate to storage and wholesale of petrol products.

**2. Basis for preparation of the financial statements and accounting principles**

**2.1. General**

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the EU) and applicable in the Republic of Bulgaria.

These financial statements have been prepared on the historical cost basis.

**2.2. Applying new and revised IFRS**

**2.2.1. Standards and Interpretations effective and adopted in the current period**

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for reporting periods beginning on or after 1 January 2010:

- IFRS 1 (revised) *First-time Adoption of IFRS* adopted by the EU on 25 November 2009 (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 1 *First-time Adoption of IFRS* - Additional Exemptions for First-time Adopters, adopted by the EU on 23 June 2010 (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 2 *Share-based Payment* - Group cash-settled share-based payment transactions adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* - Eligible hedged items, adopted by the EU on 15 September 2009 (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009, adopted by the EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 23 March 2010 (effective for annual periods beginning on or after 1 January 2010),

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**2.2. Applying new and revised IFRS (continued)**

- IFRIC 12 *Service Concession Arrangements* adopted by the EU on 25 March 2009 (effective for annual periods beginning on or after 30 March 2009),
- IFRIC 15 *Agreements for the Construction of Real Estate* adopted by the EU on 22 July 2009 (effective for annual periods beginning on or after 1 January 2010),
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* adopted by the EU on 4 June 2009 (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* adopted by the EU on 26 November 2009 (effective for annual periods beginning on or after 1 November 2009),
- IFRIC 18 *Transfers of Assets from Customers* adopted by the EU on 27 November 2009 (effective for annual periods beginning on or after 1 November 2009).

The adoption of the above amendments has not led to any changes in the Company's accounting policies.

**2.2.2. Standards and Interpretations issued by IASB but not yet adopted**

*At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:*

- Amendments to IAS 24 *Related Party Disclosures* - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 *Financial Instruments: Presentation* – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- Amendments to IFRS 1 *First-time Adoption of IFRS* - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRIC 14 IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- Amendments to various standards and interpretations "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation).
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2010**

## **2.2. Applying new and revised IFRS (continued)**

### ***Standards and Interpretations issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as of the date of authorisation of these financial statements:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 *First-time Adoption of IFRS* - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 *Financial Instruments: Disclosures* - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 12 *Income Taxes* - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: *Financial Instruments: Recognition and Measurement*, would not significantly impact the financial statements, if applied as at the balance sheet date.

## **2.3. Functional and presentation currency of the financial statements**

Functional currency is the currency of the primary economic environment in which the entity operates and in which it primarily generates and expends cash. An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it.

The Company keeps its records and prepares its financial statements in the national currency of the Republic of Bulgaria - the Bulgarian Lev, which is adopted by the Company as its functional currency.

These financial statements are presented in thousand Bulgarian Levs.



**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**2.4. Foreign currency**

Transactions in foreign currency are initially recorded at the official rate of exchange of the Bulgarian National Bank (BNB) as of the date of the transaction. The foreign exchange rate differences, arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported in profit or loss for the period in which they arise.

The monetary positions denominated in foreign currency as of December 31, 2010 and 2009 are stated in these financial statements at the closing exchange rate of BNB. The closing exchange rates of BGN against USD as of the respective reporting periods are as follows:

December 31, 2010:	1 USD = BGN 1.47276
December 31, 2009:	1 USD = BGN 1.36409

**2.5. Accounting estimates and reasonable assumptions**

The preparation of the financial statements in accordance with IFRS requires Management to make certain accounting estimates and reasonable assumptions that affect some of the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on the best estimate of Management, taking into account historical experience and analysis of all factors of significance in the circumstances as of the date of the financial statements. The actual results could differ from those estimates, presented in these financial statements.

**2.6. Subsidiary companies**

A subsidiary is an enterprise that is controlled by the Parent company. Control is the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

**2.7. Associates**

An associate is an enterprise over which the Parent company is in a position to exercise significant influence, but is neither subsidiary, nor joint venture. Significant influence is the right of participation in, but not control over, the financial and operating policy decisions of the investee.

**2.8. Changes in accounting policies**

The Company changes its accounting policy only when the change is required by specific standard or interpretation or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. The change in accounting policy resulting from the initial application of a new standard or interpretation is accounted for in accordance with the transitional and concluding provisions in that standard or interpretation. In the absence of such provisions or the changes are made voluntarily, they are applied retrospectively, as the opening balance of each affected component of equity and the other comparative amounts are adjusted as if the new accounting policy had always been applied. When applies a new accounting policy retrospectively, the Company presents in the financial statements supplementary statement of financial position as of the beginning of the earliest comparative period.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**3. Definition and valuation of the statement of financial position and the statement of comprehensive income items**

**3.1. Property, plant and equipment and intangible assets**

Property, plant and equipment and intangible assets are initially carried at acquisition cost, including the purchase price, import duties and non-refundable taxes, as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. After initial recognition, property, plant and equipment and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any (see also note 3.2).

When property, plant and equipment include significant items having various useful lives, such items are reported as separate assets.

Subsequent costs, including costs for replacement of components of property, plant and equipment are capitalised in the amount of the asset, if they satisfy the recognition principle. The carrying amount of the replaced item is derecognised in accordance with the requirements of IAS 16 *Property, Plant and Equipment*. All other subsequent costs are recognised as expenses for the period as incurred.

Depreciation and amortisation are charged over the estimated useful lives, using the straight-line method. Depreciation and amortisation is recognised in profit or loss for the current period.

As of the end of each reporting period the Company's Management review the useful life and the depreciation method of the property, plant, equipment and intangible assets. In case of differences between the expectations and the previous estimates, the changes are made in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*

The assets' estimated useful lives are as follows:

Useful life	2010	2009
Administrative and trade buildings	25 years	25 years
Machinery, plant and equipment	2-25 years	2-25 years
Vehicles	4-10 years	4-10 years
Office equipment	4-6 years	4-6 years
Intangible assets	2-7 years	2-7 years

Depreciation of an asset begins in the month following the month in which it is available for use and ceases at the earlier of the date that the asset is classified as held for sale, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised.

Land, assets under construction and fully depreciated assets are not depreciated.

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

### **3.2. Impairment of property, plant and equipment, intangible assets and investment property**

As of the end of the reporting period, the Company's management estimates if there are indications for impairment of property, plant and equipment, intangible assets and investment property. If such indication exists, the recoverable amount of the asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit, to which the asset belongs.

The recoverable amount is the higher of the asset's fair value less costs to sell the asset and its value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised immediately in profit or loss, unless the asset is carried at revalued amount. In this case the impairment loss is treated as a decrease in the revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### **3.3. Inventories**

Inventories are stated at lower of cost and net realisable value. Cost comprises purchase price, transportation, customs duties and other similar costs. Net realisable value represents the estimated selling price less all estimated costs to be incurred in selling.

Upon consumption, the cost of inventories is calculated using the following methods:

Fuels	- First-in, first-out (FIFO)
Aviation fuel	- Specific identification price of each delivery
Materials	- Weighted average cost

### **3.4. Financial instruments**

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets/liabilities are recognised in the statement of financial position only when the Company becomes a party to the contractual provisions of the instrument. Financial assets are removed from the statement of financial position after the contractual rights for receiving cash flows expired or the asset is transferred and the transfer meets the derecognition requirements under IAS 39 *Financial Instruments: Recognition and Measurement*. Financial liability is removed from the statement of financial position when, and only when, it is extinguished – that is when the obligation specified in the contract is discharged, cancelled, or expires.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2010**

**3.4. Financial instruments (continued)**

On initial recognition financial assets/liabilities are measured at fair value. Transaction costs, which are directly attributable to the acquisition or issue of the financial assets/liabilities are included in their value, except when the financial assets/liabilities are measured at fair value through profit or loss.

For the purposes of subsequent measurement, in accordance with IAS 39 Financial Instruments: Recognition and Measurement, the Company classifies the financial assets and financial liabilities into the following categories: financial assets or financial liabilities at fair value through profit and loss; held-to-maturity investments; loans and receivables; financial assets available for sale and financial liabilities at amortised cost. Classification under each category depends on the purpose and term of the respective contract. The Company does not apply this classification of assets and liabilities for the purposes of their presentation in the statement of financial position. Data about the respective categories of financial instruments is included in note 24.

**3.4.1. Financial assets (liabilities) measured at fair value through profit and loss**

A financial asset or liability is classified as held for trading when it is acquired mainly for the purpose of selling or being bought back in the near future or is a derivative instrument, for example, option of futures contracts concluded on international stock exchange markets and shares traded on Bulgarian Stock Exchange.

After its initial recognition financial assets at fair value through profit and loss are measured at fair value as of the date of the preparation of the financial statements and every difference up to this amount is recognised in profit or loss in the period in which it arises.

**3.4.2. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable terms for settlement, which are not quoted on an active market. The assets from this category are presented in the statement of financial position as receivables on interest loans, trade and other receivables and cash.

***Receivables on interest-bearing loans, trade and other receivables***

After initial recognition, trade receivables and receivables on interest bearing loans are measured at amortised cost by using the effective interest rate method, less impairment loss, if any. Current receivables are not subject to amortisation. Impairment loss is accrued if any objective evidence exists, such as material financial difficulties of the borrower, probability the borrower to be entered into liquidation and other (see note 3.4.4).

***Cash***

For the purposes of the statement of cash flows preparation, cash comprise cash in hand and cash at banks, with the exception of restricted cash, which the Company has no right to use or dispose of.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2010**

**3.4.3. Financial assets available for sale**

Financial assets available for sale are non-derivative financial instruments, which are not classified in the previous categories. According to the intention and ability of the Management to realise them in long term or within one year, they are presented in the statement of financial position as long-term or short-term investments and include investments in subsidiaries, investments in associates and minority interests.

In accordance with *IAS 27 Consolidated and separated financial statements* and *IAS 28 Investments in associates*, the Company has adopted to report the investments in subsidiaries and associates applying *IAS 39 Financial instruments: recognition and measurement*.

The regular purchases and sales of financial assets, available for sale are recognised at the trade date – the transaction date at which the Company engages to buy or sale the asset. After initial recognition the financial assets, available for sale are measured at fair value as of the date of the financial statements preparation, as any difference is recognised in other comprehensive income. In case of subsequent sale or impairment of financial assets, available for sale, the accumulated differences from fair value adjustments are recognised in profit or loss.

The fair value of financial assets available for sale, which are quoted on an active market, are measured at the stock exchange price as of the date of the financial statements. Financial assets for which there is no stock exchange price on an active market and the fair value of which cannot be reliably measured after their initial recognition are reported at cost less impairment losses, if any (see also note 3.4.4).

**3.4.4. Impairment of financial assets**

As of the end of the reporting period the management of the Company assessed whether there is any objective indication of impairment of all financial assets with the exception of financial assets carried at fair value through profit and loss. A financial asset is considered impaired only when there is objective evidence that the estimated future cash flows have decreased as a result of one or more events that have occurred after the initial recognition of the asset.

When such indications exist for assets carried at cost, the impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the current market interest rate for similar assets.

When a decline in the fair value of a financial asset available for sale has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss, calculated as a difference between the acquisition cost and the current fair value, that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss, even if the financial asset is not written off. Impairment losses recognised for equity instruments available for sale cannot be reversed in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**3.4.4. Impairment of financial assets (continued)**

Impairment loss on held-to-maturity investments, loans and receivables carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses are immediately recognised in profit or loss. It is recovered if a subsequent increase of the recoverable amount could be objectively tied to the occurrence of an event after the date on which the impairment loss was recognised.

**3.4.5. Financial liabilities at amortised cost**

After initial recognition the Company measures all financial liabilities at amortised cost with the exception of financial liabilities measured at fair value through profit and loss, financial liabilities originating when the transfer of an asset does not meet the conditions for being written-off; agreements for financial guarantees, engagements for granting loans at an interest rate that is lower than the market interest rate. These liabilities are presented in the statement of financial position of the Company as trade and other liabilities and interest-bearing loans.

**Trade and other payables**

Trade and other payables are incurred as a result of purchases of goods and services. Current liabilities are not amortised.

**Interest-bearing loans**

Interest-bearing loans are initially recorded at fair value, determined from the cash proceeds less transaction costs. After initial recognition, interest bearing loans are measured at amortised cost, as any difference between the initial cost and maturity cost is recognised in profit or loss over the loan period, using the effective interest method. If no transaction costs have been incurred in negotiating an interest bearing loan, the loan is not subject to amortisation. The same applies to bank overdrafts, where the borrower is entitled to multiple utilisations or repayments of the borrowed funds within a pre-determined overdraft limit.

Finance costs, including direct issue costs, are accounted for on an accrual basis using the effective interest method, except for transaction costs on bank overdrafts, which are recognised in profit or loss on a straight line basis over the overdraft period.

The effective interest rate method is a method of calculating the amortised cost of financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate for a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate the Company measures the cash flows and takes into consideration all contractual provisions of the financial instrument, excluding eventual future loan impairment losses. The calculation includes fees, transaction costs, premiums or discounts, paid or received by the parties to the contract, which are an integral part of the effective interest rate.

Interest bearing loans are classified as current when they are expected to be settled within a twelve month period after the reporting period.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2010**

**3.4.6. Share capital**

The share capital of the Company is presented at historical cost at the date of its registration.

**3.5. Deferred income and expenses**

As deferred income and expenses in the statement of financial position are presented income and expenses prepaid in the current, but related to succeeding reporting periods – guarantees, insurances, subscriptions and etc.

**3.6. Income tax**

Income tax expense comprises current income tax and deferred tax.

The current income tax is based on taxable profit for the year by applying the effective tax rate according to the tax legislation as of the date of the financial statements. Deferred tax is the income tax expected to be payable (recoverable) on taxable (deductible) temporary differences. Temporary differences are the differences between the carrying amount of an asset and a liability in the statements of financial position, and the corresponding tax basis. Deferred tax is calculated using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences, whereas deferred tax assets are recognised for deductible temporary differences, only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on the information that the Company is provided for as of the date of the issuance of the financial statements. Deferred tax is recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss, either in other comprehensive income or directly in equity. In this case the tax is also recognised outside profit or loss either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are reported on a net basis when they are subject to a unified tax regime.

In accordance with the tax legislation enforceable for the years ended 2010 and 2009, the tax rates applied for the calculation of current tax liabilities of the Company is 10%. For the calculation of the deferred tax assets and liabilities as of December 31, 2010 and 2009, the Company has used a tax rate of 10%.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended December 31, 2010**

**3.7. Revenue and expenses recognition**

**3.7.1. Revenue from sales of goods, services and other revenue**

Revenues and expenses are accounted for on an accrual basis, regardless of cash receipts and payments. They are reported in compliance with the matching concept.

Revenue is recognised at the fair value of the consideration received or expected to be received, less any discounts allowed and includes the economic benefits received by or due to the Company. The amounts gathered on behalf of third parties as tax on sales, such as the value added tax, are excluded from the income. Revenue generated from sale of fuel is reported in its gross amount with the due excise, which is regarded as integral part of the product's price.

Revenue from sales of goods is recognised when:

- The significant risks and rewards of ownership of the goods or production are transferred to the buyer;
- The Company retains neither continuing managerial involvement nor effective control over the goods sold;
- It is probable that the economic benefits associated to the transaction will flow to the Company;
- The amount of revenue and costs incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving rendering of services can be estimated reliably, revenue is recognised by the reference of the stage of completion of the transaction at the reporting date. When the outcome of a transaction cannot be estimated reliably revenue is recognised only to the extent of the expenses recognised that are recoverable.

Gain or loss from sales of property, plant, equipment, intangible assets and materials is reported as other income or other expense.

When economic benefits are expected to arise during few reporting periods and their relation with the revenue can be determined generally or indirectly, expenses are recognised in profit or loss on the basis of procedures for systematic and rational distribution.

Profit or loss arising from the exchange of assets is stated at the difference between the fair value of the asset received and the carrying amount of the asset exchanged.

**3.7.2. Fees and commissions income and expenses**

Fees and commissions are recognised on accruals basis, after performance of the service.

**3.7.3. Finance income and cost**

Borrowing costs that may be directly attributed to the acquisition, construction or production of an asset, when it takes significant time before it is ready for use or sale, should be capitalised as part of the asset's cost. All other finance income and finance costs are accrued through profit or loss measured at amortised cost by using the effective interest rate method.

Income from equity interests is recognised when the Company is entitled to receive such income.



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**3.8. Lease**

**3.8.1. Operating lease**

Expenses for hired assets under operating lease agreements are reported in profit or loss on a straight-line basis for the period of the agreement.

Revenue generated from assets, leased out under operating lease agreements, is recognised in profit or loss on a straight-line basis for the period of the agreement. Initial costs, directly related to the conclusion of the lease agreement, are capitalised in the cost of the asset and are recognised as expense on a straight-line basis for the term of the lease agreement.

**3.8.2. Sale and leaseback**

A sale and leaseback transaction is related to the sale of an asset and the leasing back of the same asset. The accounting treatment of the sale and leaseback transaction depends on the type of the lease contract and the substance of the transaction.

If the sale and leaseback is a finance lease, the transaction is a mean whereby the lessor provides finance to the lessee with the asset as security. If under the terms and conditions of the finance lease contract there is no change in the right of use of the asset by the seller/lessee before and after the transaction, it is not within the scope of *IAS 17 Leases* and essentially represents financing. In this case the proceeds received from the transaction are presented as liabilities on interest-bearing loans in the statement of financial position, while the direct costs incurred by the lessee during the transaction are deferred for the period of the lease contract.

**4. Revenue**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Goods	1,068,362	875,555
Services	12,716	8,845
	<u>1,081,078</u>	<u>884,400</u>

**5. Other income**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated
Surplus of assets	2,053	643
Insurance claims	210	39
Gain from disposal of property, plant and equipment, including	106	-
<i>Income from disposal of property, plant and equipment</i>	111	-
<i>Carrying amount</i>	(5)	-
Gain from sale of property, plant and equipment, including:	1	69
<i>Income from sale</i>	2	79
<i>Carrying amount</i>	(1)	(10)
Other	285	157
	<u>2,655</u>	<u>908</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**6. Materials and consumables**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Electricity and heating	490	360
Office consumables	59	73
Advertising materials	45	27
Spare parts	21	16
Water	15	18
Fuels and lubricants	7	8
Work clothes	3	25
Other	68	62
	<u>708</u>	<u>589</u>

**7. Hired services**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Transport	7,313	7,132
Security	1,523	1,323
Maintenance and repairs	1,493	1,052
Holding fee	1,331	1,291
Rents	962	802
Consulting and training	742	998
Insurances	642	585
Fees and commissions	608	1,086
Software licenses	585	673
Communications	150	264
Advertising	18	33
Other	79	99
	<u>15,446</u>	<u>15,338</u>

**8. Employee benefits expenses**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Wages and salaries	3,361	3,315
Social security contributions	1,176	1,264
	<u>4,537</u>	<u>4,579</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**9. Impairment of assets**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Impairment of trade and other receivables	3	49
Reversed impairment of inventories	(15)	(249)
	<u>(12)</u>	<u>(200)</u>

**10. Other expenses**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated
Scrap, shortage and assets written-off	2,131	2,217
Penalties and indemnities	319	183
Local taxes and taxes on expenses	157	163
Business trips	125	113
Entertainment expenses and sponsorship	77	177
Loss on sale of property, plant and equipment, including	-	133
<i>Income from sale</i>	-	(235)
<i>Carrying amount</i>	-	368
Other	76	22
	<u>2,885</u>	<u>3,008</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**11. Finance income and costs**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated
<b>Finance income</b>		
Interest income, including:	5,043	1,338
<i>Interest income on loans granted</i>	3,950	529
<i>Interest income on trade receivables</i>	984	571
<i>Other interest income</i>	109	238
Dividends received	260	766
Gain from dealings with financial assets, held for trading, including:	44,314	-
<i>Revaluation at fair value, net</i>	44,314	-
	<u>49,617</u>	<u>2,104</u>
<b>Finance costs</b>		
Interest costs, including:	(31,382)	(30,812)
<i>Interest expenses on bank loans</i>	(300)	(319)
<i>Interest expenses on trade loans</i>	(29,892)	(29,441)
<i>Interest expenses on trade and other payables</i>	(1,190)	(1,052)
Loss from dealings with financial assets, held for trading, including:	-	(183,509)
<i>Gain from sales</i>	-	41
<i>Revaluation at fair value, net</i>	-	(183,550)
Loss from dealings with derivatives, including:	(121)	(1,196)
<i>Loss from sales</i>	(121)	(1,401)
<i>Revaluation at fair value, net</i>	-	205
Foreign exchange rate loss, net	(4,532)	(408)
Bank fees, commissions and other finance costs	(2,354)	(1,846)
	<u>(38,389)</u>	<u>(217,771)</u>
<b>Finance income (costs), net</b>	<u>11,228</u>	<u>(215,667)</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**12. Taxation**

Income tax recognised in profit or loss includes the amount of current and deferred income taxes in accordance with the requirements of IAS 12 *Income Taxes*

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Current tax expense	-	132
Income tax expense as a result of an audit act	-	426
Change in deferred taxes, including	(2,275)	(2,434)
<i>Temporary differences originated during the year</i>	(3,366)	(2,919)
<i>Temporary difference recognised during the year</i>	1,091	485
<b>Total tax (income)</b>	<b>(2,275)</b>	<b>(1,876)</b>

The reconciliation between accounting loss and tax benefit or tax expense, and the calculation of the effective tax rate as of December 31, 2010 and 2009 are as follows:

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Accounting profit (loss)	20,641	(205,272)
Applicable tax rate	10%	10%
Income tax at the applicable tax rate	2,064	(20,527)
Effect from revaluation of financial assets, traded on regulated market	(4,431)	18,355
Tax effect on permanent differences	92	178
Tax effect on other differences	-	118
<b>Tax (income)</b>	<b>(2,275)</b>	<b>(1,876)</b>
<b>Effective tax rate</b>	<b>-</b>	<b>-</b>

Tax effect on permanent differences as of December 31, 2010 is calculated on the amount of BGN 43,389 thousand which represents mainly revaluation of financial assets held for trading.

Deferred tax asset reported in the statement of financial position occurs as a result of income taxes accrued on deductible temporary differences, the effect from which is as follows:

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**12. Taxation (continued)**

	December 31, 2010		December 31, 2009	
	Temporary difference BGN'000	Tax effect BGN'000	Temporary difference BGN'000	Tax effect BGN'000
<b>Balance at the beginning of the period</b>				
Property, plant and equipment	8	-	15	1
Tax loss to be carried forward	-	-	1,981	198
Unused annual paid leave	257	27	233	24
Investments in subsidiaries and associates	(16,869)	(1,687)	(16,869)	(1,687)
Subsequent measurement of assets	-	-	206	20
Excess of interest payments	28,993	2,899	-	-
Impairment of assets	2,247	224	4,739	474
Other temporary differences	9	1	1	-
	<u>14,645</u>	<u>1,464</u>	<u>(9,694)</u>	<u>(970)</u>
<b>Originated during the period</b>				
Property, plant and equipment	69	7	-	-
Tax loss to be carried forward	33,270	3,327	-	-
Unused annual paid leave	46	5	188	19
Excess of interest payments	-	-	28,993	2,899
Impairment of assets	-	-	3	-
Other temporary differences, including unpaid personal income	270	27	9	1
	<u>33,655</u>	<u>3,366</u>	<u>29,193</u>	<u>2,919</u>
<b>Recognised during the year</b>				
Property, plant and equipment	-	-	(7)	(1)
Tax loss to be carried forward	-	-	(1,981)	(198)
Unused annual paid leave	(127)	(13)	(164)	(16)
Subsequent measurement of financial assets	-	-	(206)	(20)
Excess of interest payments	(10,232)	(1,023)	-	-
Impairment of assets	(544)	(54)	(2,495)	(250)
Other temporary differences, including unpaid personal income	(9)	(1)	(1)	-
	<u>(10,912)</u>	<u>(1,091)</u>	<u>(4,854)</u>	<u>(485)</u>
<b>Balance at the end of the period</b>				
Property, plant and equipment	77	7	8	-
Tax loss to be carried forward	33,270	3,327	-	-
Unused annual paid leave	176	19	257	27
Investments in subsidiaries and associates	(16,869)	(1,687)	(16,869)	(1,687)
Subsequent measurement of assets	-	-	-	-
Excess of interest payments	18,761	1,876	28,993	2,899
Impairment of assets	1,703	170	2,247	224
Other temporary differences, including unpaid personal income	270	27	9	1
	<u>37,388</u>	<u>3,739</u>	<u>14,645</u>	<u>1,464</u>

The Company is allowed to carry forward its tax loss at the amount of BGN 33,270 thousand by 2015 and could recognise for tax purposes by 2014 unrecognised interests expenses resulting from application of the thin capitalisation regime. The Management has considered that in the next five years the Company will realise enough profits to utilise the originated loss.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**13. Property, plant and equipment and intangible assets**

	Land	Buildings	Plant and equipment	Vehicles	Other assets	Assets under construction	Intangible assets	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
<i>Cost</i>								
Balance at January 1, 2009	13,507	7,286	22,506	171	510	5,085	139	49,204
Additions	-	-	59	-	-	2,504	-	2,563
Transfers	-	-	2,142	-	2	(2,144)	-	-
Disposals	-	(8)	(490)	(19)	-	(8)	-	(525)
Balance at December 31, 2009	13,507	7,278	24,217	152	512	5,437	139	51,242
Additions	283	292	100	-	3	3,590	7	4,275
Transfers	-	-	794	-	1	(795)	-	-
Disposals	-	(7)	(3)	-	-	(1)	-	(11)
Balance at December 31, 2010	13,790	7,563	25,108	152	516	8,231	146	55,506
<i>Accumulated depreciation and amortisation</i>								
Balance at January 1, 2009	-	1,019	4,091	55	373	-	75	5,613
Charged for the period	-	291	1,172	19	56	-	21	1,559
Disposals for the period	-	-	(137)	(10)	-	-	-	(147)
Balance at December 31, 2009	-	1,310	5,126	64	429	-	96	7,025
Charged for the period	-	293	1,199	17	33	-	23	1,565
Disposals for the period	-	(1)	(1)	-	-	-	-	(2)
Balance at December 31, 2010	-	1,602	6,324	81	462	-	119	8,588
Carrying amount at January 1, 2009	13,507	6,267	18,415	116	137	5,085	64	43,591
Carrying amount at December 31, 2009	13,507	5,968	19,091	88	83	5,437	43	44,217
Carrying amount at December 31, 2010	13,790	5,961	18,784	71	54	8,231	27	46,918

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**13. Property, plant and equipment and intangible assets (continued)**

As of December 31, 2010 assets under construction do not include advances paid to suppliers in relation to purchase of non-current assets. As of December 31, 2009 the advances paid to suppliers are BGN 308 thousand.

Land and buildings with carrying amount of BGN 8,438 thousand (2009: BGN 1,990 thousand) have been pledged as collateral on bank loans granted to the Ultimate parent company and other related parties (see also note 22).

**14. Investments in subsidiaries and associates**

Investments in subsidiaries	Activity	December, 31 2010		December, 31 2009	
		BGN'000	% of capital	BGN'000	% of capital
Eurocapital Bulgaria AD	Property management	46,149	89.97%	22,094	36.92%
Jurex Consult AD	Legal services	205	79.95%	-	-
Naftex Security EAD	Security	50	100.00%	-	-
		<u>46,404</u>	<u>-</u>	<u>22,094</u>	<u>-</u>

In November 2010 under a frame contract the Company acquires from the Ultimate parent company 80% of the share capital of Jurex Consult AD equals to 1,599 shares at the amount of BGN 205 thousand and 100% of the share capital of Naftex Security EAD equals to 50 shares at the amount of BGN 50 thousand. According to the same contract, further 317,455 shares of Eurocapital Bulgaria AD were acquired at the amount of BGN 24,055 thousand. Thus the Company increased its participation in Eurocapital Bulgaria AD from 36.92% to 89.97% and the investment was reclassified from investments in associates to investments in subsidiaries (see also note 28).



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**15. Inventories**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000 restated	January 1, 2009 BGN'000 restated
Goods, including	34,771	20,531	20,704
<i>Fuels</i>	34,299	19,880	19,915
<i>Lubricants and other goods</i>	472	651	789
Materials	424	423	423
	<u>35,195</u>	<u>20,954</u>	<u>21,127</u>

As of December 31, 2010 impairment loss of the available aviation fuel at the amount of BGN 15 thousand has been reversed due to increase of market prices (see also note 9).

As of December 31, 2010 the Company stores compulsory stock under the Mandatory Stocks of Crude Oil and Petroleum Products Act (MSCOPPA) at the amount of BGN 25,929 thousand and also stock of counterparties under rent contracts at the amount of BGN 9,010 thousand. As of December 31, 2010 these inventories are presented as non-current assets amounting to BGN 34,939 thousand (2009: BGN 13,398 thousand; 2008: BGN 442 thousand).

Available petrol products serve as collateral on bank borrowings utilised by the Company (see also note 22).

**16. Interest-bearing loans granted**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
<b>Non-current liabilities</b>		
Interest-bearing loans to related parties	<u>34,902</u>	<u>-</u>
<b>Current liabilities</b>		
Interest-bearing loans to related parties	<u>9,239</u>	<u>28,084</u>
	<u>44,141</u>	<u>28,084</u>

The terms of the interest-bearing loans are disclosed in note 25.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**17. Trade and other receivables**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Receivables from customers, including:	12,472	24,329
<i>Initial cost</i>	14,191	26,427
<i>Allowance for doubtful debts</i>	(1,719)	(2,098)
Related party receivables	11,930	14,304
Litigations and writs, including:	2,585	2,459
<i>Initial cost</i>	2,601	2,476
<i>Allowance for doubtful debts</i>	(16)	(17)
Recoverable taxes, including:	5	4
<i>Excise duty</i>	4	4
<i>Other taxes</i>	1	-
Deferred expenses	124	66
Other	12	14
	<b>27,128</b>	<b>41,176</b>

Related party receivables are further disclosed in note 25.

In compliance with the adopted policy, the Company grants credit period to some of its customers after which penalty interest is charged on the outstanding balance for the delay according to the terms of the agreement.

As of December 31, 2010 trade and other receivables include overdue receivables at the amount of BGN 11,258 thousand. Despite of the payments delay, the Company considers that there are no significant changes in the creditworthiness of the customers and the receivables are recoverable. Allowance for doubtful debts at the amount of BGN 379 thousand was written off due to expiry of five years from its originating and the Management has assessed that there is no probability for repayment. In conjunction with overdue receivables at the amount of BGN 995 thousand, the Company entered into court proceedings. In addition, as of the date the financial statements are approved for issuance, 68% of the trade receivables have been recovered.

Ageing analysis of the overdue, but not impaired receivables is presented in the table below:

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Up to 30 days	4,378	15,223
From 31 to 120 days	2,732	794
From 121 to 210 days	1,877	328
Over 211 days	2,271	1,320
	<b>11,258</b>	<b>17,665</b>

Company's management believes that the carrying amount of trade and other receivables approximates their fair value as of December 31, 2010 and 2009.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**18. Short-term financial assets**

As of December 31, 2010 and 2009 shares of the Parent Company acquired as a result of transactions on the Bulgarian Stock Exchange at the amount of BGN 363,645 thousand and BGN 319,331 thousand, respectively, have been recognised as short-term financial assets. As of the end of the reporting period the shares are revalued at stock price and the effect is reported in the statement of comprehensive income (see also notes 11 and 28).

**19. Recoverable (payable) current income tax**

The excess of the paid corporate income tax during the current period over the current tax liabilities at the amount of BGN 104 thousand is presented in the statement of financial position as recoverable income tax.

The recoverable income tax is formed as follows:

	December 31 2010 BGN'000	December 31 2009 BGN'000
Payable (recoverable) income tax at the beginning of the period	114	(6,000)
Corporate income tax charged	-	132
Corporate income tax paid	(218)	(18)
Offset of corporate tax with VAT	-	5,574
Adjusted corporate tax	-	426
<b>Income tax recoverable (payable) at the end of the year</b>	<b>(104)</b>	<b>114</b>

**20. Cash and cash equivalents**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Cash at bank accounts	4,739	9,015
Cash on hand	94	102
<b>Cash as per the cash flows statement</b>	<b>4,833</b>	<b>9,117</b>
Restricted cash	149	94
<b>Cash as per the statement of financial position</b>	<b>4,982</b>	<b>9,211</b>

Restricted cash as of December 31, 2010 comprises cash at the amount of BGN 149 thousand serving as collateral on excise liabilities. As of December 31, 2009 restricted cash at the amount of BGN 94 thousand includes collateral for the excise duty payable and bank guarantees.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**21. Share capital**

The share capital of the Company is presented at nominal value, at the amount of BGN 62,757 thousand, distributed into 6,275,733 shares with a nominal value of BGN 10 each.

As of the date of the accompanying financial statements, the sole owner of the share capital is Petrol AD.

**22. Interest-bearing loans**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
<b>Non-current payables</b>		
Sale and leaseback liabilities	4,454	-
Trade loans from related parties	-	304,989
	<u>4,454</u>	<u>304,989</u>
<b>Current payables</b>		
Bank loans	10,002	9,998
Sale and leaseback liabilities	312	-
Trade loans from related parties	335,584	1,295
	<u>345,898</u>	<u>11,293</u>
	<u>350,352</u>	<u>316,282</u>

The effective interest rate on bank loans for 2010 and 2009 varies between 4% and 10%. Further information about the interest rate risk, the exchange rate risk and the liquidity risk, at which the received interest-bearing loans expose the Company, is presented in note 24.

The Company's loans have been collateralised with pledge of goods, receivables, cash at current account, book entry registered securities of the Parent company, as well as a promissory note (see also notes 15).

In 2010 the Company has signed a leaseback agreement for immovable property with carrying amount of BGN 229 thousand with payback period of 10 years. The amount of BGN 312 thousand, payable in 2011, is presented as a non-current liability.

As of December 31, 2010 the Company has signed an agreement for short-term bank loan – overdraft at the amount of BGN 10,002, as the unutilised (undrawn) amount is BGN 2 thousand. The contractual fixed annual interest rate is 9%. As collateral in favour of the bank, pledge on receivables and a guarantee have been concluded.

Related party payables are disclosed in note 25.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**23. Trade and other payables**

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Payables to suppliers	67,999	57,264
Related parties payables	68,926	49,412
Tax payables, including:	40,165	36,113
<i>VAT</i>	13,557	12,962
<i>Excise duty and other taxes</i>	26,608	23,151
Advances received	17,422	1,687
Payables to personnel and to social security funds	548	257
Other	211	144
	<b>195,271</b>	<b>144,877</b>

Related party payables are disclosed in note 25.

Excise duty liabilities at the amount of BGN 26,576 thousand and liabilities to supplier at the amount of BGN 18,549 thousand are collateralised with assets owned by related parties.

The Company accrues provisions for unused paid annual leaves of employees in compliance with IAS 19 *Employee Benefits*. The movements of these provisions are as follows:

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Balance at the beginning of the year	257	233
Accrued during the year	46	188
Utilised during the year	(127)	(164)
<b>Balance at the end of the year, incl.:</b>	<b>176</b>	<b>257</b>
<i>Annual leaves</i>	152	222
<i>Social security contributions</i>	24	35

The balance at the end of the year is presented in the statement of financial position together with the current payables to the personnel.

The Company's management believes that the carrying amount of the Company's current liabilities in the statement of financial position approximates their fair value.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**24. Financial instruments and risk management**

Carrying amounts of assets and liabilities as of December 31, 2010 and 2009 by categories are set in accordance with IAS 39 *Financial instruments: Recognition and Measurement* and are presented in the following tables:

December 31, 2010 BGN'000	Note	Fair value through profit and loss	Loans and receivables	Available for sale	Total
Investments in subsidiaries	14	-	-	46,404	46,404
Interest-bearing loans granted, net	16	-	44,141	-	44,141
Trade and other receivables, net	17	-	26,987	-	26,987
Short-term investments	18	363,645	-	-	363,645
Cash	20	-	4,982	-	4,982
		<u>363,645</u>	<u>76,110</u>	<u>46,404</u>	<u>486,159</u>
December 31, 2009 BGN'000	Note	Fair value through profit and loss	Loans and receivables	Available for sale	Total
Investments in associates	14	-	-	22,094	22,094
Interest-bearing loans granted, net	16	-	28,084	-	28,084
Trade and other receivables, net	17	-	41,090	-	41,090
Short-term investments	18	319,331	-	-	319,331
Cash	20	-	9,211	-	9,211
		<u>319,331</u>	<u>78,385</u>	<u>22,094</u>	<u>419,810</u>
December 31, 2010 BGN'000	Note		Fair value through profit and loss	At amortised cost	Total
Trade and other payables	23		-	136,925	136,925
Interest-bearing loans	22		-	350,352	350,352
			<u>-</u>	<u>487,277</u>	<u>487,27</u>
December 31, 2009 BGN'000	Note		Fair value through profit and loss	At amortised cost	Total
Trade and other payables	23		-	106,820	106,820
Interest-bearing loans	22		-	316,282	316,282
			<u>-</u>	<u>423,102</u>	<u>423,102</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**24. Financial instruments and risk management (continued)**

Company's use of financial instruments exposes it to market, credit and liquidity risk. The current note presents information about risk management goals, policies and processes, as well as equity management. The Ultimate parent company's Board of Directors sets strategic guidelines for financial risk management as the operative implementation of the adopted policies and the realisation of risk management processes are carried out by the Cash Flows Department and Global Markets Department of Petrol Holding AD.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and it may occur as currency, interest or other price risk. In view of the nature of the business, the Company is exposed to price, currency and interest risk.

**Price risk**

The Company is exposed to the risk of frequent changes in the fuel prices. In order to decrease its sensitivity to the changes in the fuel prices, the Company updates daily its selling prices in accordance with the geographical region and the prices of the main competitors.

Investments in equity instruments classified as financial assets, held for trading (at fair value through profit and loss) expose the Company to price risk.

Equity instruments sensitivity analysis to the price risk is calculated only for those of them for which stock quotations exist. The net profit for the current year would have increased/decreased by BGN 40,001 thousand in case that the value of the index SOFIX had increased/decreased by 11 %, and all other variable are constant, due to revaluations of financial assets, reported at fair value through profit or loss.

The Company uses the following hierarchy for presentation of the methods used in measurement of the fair value of the financial instruments:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company classifies its current financial assets in Level 1 according to the hierarchy for measurement of financial instruments at fair value.

**Currency risk**

The Company concludes transaction in currency, other than its functional currency, which exposes it to risk, related to possible fluctuations in exchange rates. Such risk arises mainly from fluctuations in the exchange rate of US dollars (USD) as the Company concludes purchases and has liabilities under received interest-bearing loans, denominated in USD. Transactions, concluded in EURO, do not expose the Company to risk due to the fact that since January 1, 1999 the Bulgarian lev is fixed to this currency.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**24. Financial instruments and risk management (continued)**

Financial assets and liabilities, denominated in USD, are presented in the following table:

	December 31, 2010		December 31, 2009	
	USD'000	BGN'000	USD'000	BGN'000
<b>Financial assets</b>				
Trade and other receivables	27	40	289	394
Cash	847	1,247	47	64
	<u>874</u>	<u>1,287</u>	<u>336</u>	<u>458</u>
<b>Financial liabilities</b>				
Trade payables	(50,836)	(74,869)	(21,062)	(28,730)
Interest-bearing loans	(11,000)	(16,200)	-	-
	<u>(61,836)</u>	<u>(91,069)</u>	<u>(21,062)</u>	<u>(28,730)</u>

The sensitivity analysis to the currency risk has been estimated with an 11% change of the US dollar to the Bulgarian lev. Management believes that this is a reasonable and plausible change based on a statistical analysis of exchange rate dynamics in the past year, conducted on the basis of daily deviation, calculated for 250 days. If as of December 31, 2010 USD rate had gone up/gone down by 11% towards BGN and all other risk variables held constant, the profit after taxes would have increased/decreased by BGN 8,890 thousand, mainly as a result of exchange rate differences from revaluations of trade payables and loan from related party in USD. The result after taxes for 2010 is more sensible to the change in USD exchange rate than the result for 2009 due to increased exposures of loans and trade payables in USD.

**Interest risk**

The Company is exposed to interest rate risk since part of its received bank loans bear variable interest rates, contracted at some base interest rate plus an interest rate margin.

The Company performs constant monitoring and analysis of the main interest-bearing expositions by developing different scenarios for optimisation, for example refinancing, renewing existing loans, alternative financing (sale and leaseback agreements of assets) and the Company calculates the impact of the interest rate change within a certain range on the financial result.



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**24. Financial instruments and risk management (continued)**

As of the date of the accompanying financial statements, the profile of interest-bearing financial instruments is as follows:

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
<b>Fixed interest rate instruments</b>		
Financial assets	44,141	28,084
Financial liabilities	(345,586)	(306,284)
	<u>(301,445)</u>	<u>(278,200)</u>
<b>Variable interest rate instruments</b>		
Financial assets	-	-
Financial liabilities	(4,766)	(9,998)
	<u>(4,766)</u>	<u>(9,998)</u>

Interest rate risk sensitivity analysis is based on the assumption that the variable interest rate positions as of the reporting date have existed at the same amount during the entire year and the reasonable and plausible increase/decrease of the interest rate is 8 base points. If the interest rates had been higher/lower by 8 base points, and all other variables were constant, the profit after tax for the year would have been BGN 3 thousand lower/ higher. The Company's sensitivity towards the interest rate risk reduces in the current year mainly due to the decrease in the interest-bearing loans, agreed with variable interest rate.

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**24. Financial instruments and risk management (continued)**

**Credit risk**

Credit risk is the risk for one of the parties on the financial instrument to fail to perform its obligation and in this way to cause loss for the other. Financial assets which potentially expose the Company to credit risk are mainly receivables on sales and granted interest loans. The Company is mainly exposed to credit risk in case the customers do not meet their payment obligations. The Company's policy in this area is focused on performing sales of goods and services on credit to clients with good credibility and on using adequate collateral to limit the risk of financial losses. The customers' credibility is assessed by taking into consideration their financial position, previous experience and other factors. The Company has set credit limits and monitors their observance on a regular basis.

The Company cooperates with large number of clients – mostly retail and wholesale merchants of fuel. About 83% of the Company's revenue for the current year is generated with six major clients. As of December 31, 2010 the receivables from sales with these customers amount to BGN 7,038 thousand which is 29% from the total net amount of the receivables from customers (including from related parties).

Credit risk on cash at bank account is minimum as the Company works only with banks with high credit rating.

The carrying amount of the financial assets, net of impairment losses, presents to a maximum extent the credit risk to which the Company is exposed.

**Liquidity risk**

Liquidity risk is the risk for the Company to fail to settle its financial liabilities when they become due. The policy in this area is focused on ensuring the availability of enough liquid resources to serve the liabilities when they become due including in emergency and unforeseen situations. The goal of management is to maintaining a permanent balance between continuity and flexibility of the financial resources by using different forms of financing. Management of liquidity risk includes maintenance of enough cash, negotiation of adequate credit lines, preparation, analysis and update forecasts of cash flows.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**24. Financial instruments and risk management (continued)**

The table below presents the agreed maturity of the financial liabilities on the basis of the earliest date on which the Company can be obligated to repay them. The table shows the undiscounted cash flows which include principals and interests:

December 31, 2010 BGN'000	Fair value	Agreed cash flows	Up to 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years
Bank loans	10,002	10,117	10,117	-	-	-
Sale and leaseback liabilities	4,766	6,965	638	697	2,089	3,541
Trade loans from related parties	335,584	155,028	155,028	-	-	-
Trade and other payables	136,925	134,430	134,430	-	-	-
	<u>487,277</u>	<u>306,540</u>	<u>300,213</u>	<u>697</u>	<u>2,089</u>	<u>3,541</u>
December 31, 2009 BGN'000	Fair value	Agreed cash flows	Up to 1 year	From 1 to 2 years	From 3 to 5 years	Over 5 years
Bank loans	9,998	10,209	10,209	-	-	-
Trade loans from related parties	306,284	366,721	37,587	329,134	-	-
Trade and other payables	99,502	99,502	99,502	-	-	-
	<u>415,784</u>	<u>476,432</u>	<u>147,298</u>	<u>329,134</u>	<u>-</u>	<u>-</u>

On April 30, 2011 the increase in the Company's equity at the expense of the loan from the Parent company was registered, and in this connection the agreed cash flows up to 1 year related to trade loans from related parties and trade and other payables are reduced with the amount of BGN 197,505 thousand and 2,495 thousand respectively.

**Equity management**

The Company manages its equity in such a manner so as to ensure its functioning as a going concern. The objective of the management is to retain the trust of the investors, creditors and the market and to guarantee the future development of the Company.

The equity of the Company as of December 31, 2010 is formed by share capital at the amount of BGN 62,757 and accumulated loss of BGN 1,185 thousand as well as by loan granted by the parent company at the total amount of BGN 304,989 thousand (2009: BGN 304,989 thousand) and a loan at the amount of BGN 30,595 thousand (2009: BGN 1,295 thousand) granted by related parties. As of the same date the liabilities under interest-bearing loans, granted by unrelated parties amount to BGN 14,768 thousand (2009: BGN 9,998 thousand). The Management of the Parent company determines the amount of the necessary equity in proportion to the risk level, which is inherent to the Company's activity.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**24. Financial instruments and risk management (continued)**

The ratios of net debt to adjusted equity for 2010 and 2009 are as follows:

	December 31, 2010 BGN'000	December 31, 2009 BGN'000
Debt (total loans and finance lease liabilities)	350,352	316,282
Cash and cash equivalents (see note 20)	(4,982)	(9,211)
<b>Net debt</b>	<b>345,370</b>	<b>307,071</b>
Equity	61,572	38,656
Loans received from the Parent company	304,989	304,989
<b>Adjusted equity</b>	<b>366,561</b>	<b>343,645</b>
<b>Debt to equity ratio</b>	<b>0.94</b>	<b>0.89</b>

**25. Disclosure of related parties and transactions**

The related parties over which the Company is in a position to exercise significant influence are disclosed in note 14.

Transactions with the following related parties were performed in the reported period:

**Related party**

Petrol Holding AD	ultimate controlling company
Petrol AD	parent company
Petrol Trans Express EOOD	company under common control
Petrol Technika EOOD	company under common control
New Co Zagora EOOD	company under common control
Naftex Security EAD	subsidiary from November 30, 2010
Interhotel Bulgaria Burgas EOOD	company under common control
Jurex Consult AD	subsidiary from November 30, 2010
Izvor Bottling Company AD	company under common control
Ross Oil EOOD	company under common control
Air Lazur – General Aviation EOOD	company under common control
Transcard AD	company under common control
Petrol Trade EOOD	company under common control
Transat AD	company under common control
BPI EAD	company under common control
Varna Business Services EOOD	company under common control
Eurocapital Bulgaria AD	subsidiary from November 30, 2010
Trans Telecom AD	company under common control until April 30, 2009
Transhold Bulgaria Holding AD	company under common control until September 3, 2009
Balneohotel Pomorie AD	company under common control
Petrol Gas OOD	company under common control
Black Sand Resort AD	company under common control
Naftex Trade EOOD	company under common control
Naftex Storage EOOD	company under common control
Trans Telecom AD	Associate of Petrol Holding AD until May 1, 2009
Naftex Engineering AD	Associate of Petrol Holding AD

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2010

**25. Disclosure of related parties and transactions (continued)**

The transactions performed relate primarily to:

- purchase and sale of fuels;
- acquisition of shares of companies
- granting and receiving of loans/deposits;
- purchase and sale of property, plant and equipment;
- holding fees and services.

The volume of the transactions performed with related parties in 2010 and 2009 are as follows:

Related party	December 31, 2010 BGN'000 Sale of goods and services	December 31, 2009 BGN'000 Sale of goods and services	December 31, 2010 BGN'000 Purchase of goods and services	December 31, 2009 BGN'000 Purchase of goods and services
Ultimate controlling company	8	3	26,255	2,251
Parent company	399,574	380,795	871	644
Subsidiaries	-	-	1,805	-
Companies under common control	4,454	2,332	264,182	187,104
	<u>404,036</u>	<u>383,130</u>	<u>293,113</u>	<u>189,999</u>

Related party	December 31, 2010 BGN'000 Finance income	December 31, 2009 BGN'000 Finance income	December 31, 2010 BGN'000 Finance cost	December 31, 2009 BGN'000 Finance cost
Ultimate controlling company	3,950	529	-	16
Parent company	698	465	29,378	29,425
Subsidiaries	260	-	-	-
Companies under common control	34	792	354	-
Key management personnel	-	-	163	-
	<u>4,942</u>	<u>1,786</u>	<u>29,895</u>	<u>29,441</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**25. Disclosure of related parties and transactions (continued)**

As of December 31, 2010 and 2009 the unsettled balances with related parties are as follows:

Related party	December 31, 2010 BGN'000 Receivables	December 31, 2009 BGN'000 Receivables	December 31, 2010 BGN'000 Payables	December 31, 2009 BGN'000 Payables
Ultimate controlling company, incl.:	43,323	28,622	384	65
Long-term interest-bearing loans	30,727	-	-	-
Short-term interest-bearing loans	8,935	28,084	-	-
Parent company, incl.:	3,107	12,430	314,545	312,402
Long-term interest-bearing loans	-	-	-	304,989
Short-term interest-bearing loans	-	-	304,989	-
Subsidiaries	11	-	225	-
Companies under common control, incl.:	9,630	1,336	74,673	41,934
Long-term interest-bearing loans	4,175	-	-	-
Short-term interest-bearing loans	304	-	16,200	-
Key management personnel, incl.:	-	-	14,683	1,295
Short-term interest-bearing loans	-	-	14,395	1,295
	<b>56,071</b>	<b>42,388</b>	<b>404,510</b>	<b>355,696</b>

As of December, 2010 the Company has granted to its Ultimate controlling company unsecured interest bearing loan at the amount of BGN 30,727 thousand (2009: BGN 28,084 thousand) with interest rate of 9.5%, maturity in 2012 and maximum allowed amount of BGN 60,000 thousand (2009: BGN 30,000 thousand).

For a period of one year the Company has granted to the Ultimate controlling company interest bearing loan at the amount of BGN 8,935 thousand secured with financial assets and with 9% interest rate.

The Company has granted long-term loan to related party at the amount of BGN 4,890 thousand with interest rate 8% and maturity in 2021. For the securitisation of the receivable has been established in Company's favour a registered pledge under the Registered pledges Act over assets owned by the borrowing related party. As of December 31, 2010 the utilised amount of the loan is BGN 4,479 thousand, as the amount of 304 thousand is payable in the next reporting period. In January 2011 is utilised the remaining balance at the amount of BGN 411 thousand.

In 2010 the Company reclassified the received interest-bearing loan from the Parent company at the amount of BGN 304,989 thousand from long-term to short-term interest-bearing loan. The maturity of the loan is in October 2011, with maximum allowed amount of BGN 307,500 and contractual annual interest rate 9.5%.

In 2010 the Company has received short term loan of money from a company under common control at the amount of BGN 16,200 thousand, with annual interest rate 10.5%. The maturity of the loan is in 2011 and the maximum allowed amount is up to USD 13,500 thousand. The Company has established in favour of the bank financing the company under common control a pledge of plant and equipment and a mortgage of property.

In 2010 the Company has received a short-term unsecured loan from related individual at the amount of BGN 4,200 thousand with annual interest rate 9% for a period up to one year. The contractual maximum allowed amount of the loan is up to BGN 5,000 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**25. Disclosure of related parties and transactions (continued)**

In 2010 the Company has received a short-term loan of money from related individual at the amount of BGN 8,900 thousand with annual interest rate 9.2% with repayment period until August 8, 2011. The loan has been collateralised by part of the company's financial assets, held for trading.

The Company has entered into an agreement in 2009 for interest-free loan of money at the amount of BGN 1,295 thousand with related individual with maturity in 2011.

The total amount of the remuneration of the key management staff of the Company, included in employee benefits expenses, amounts to BGN 54 thousand (2009: BGN 54 thousand).

**26. Changes in accounting policies**

The effects of the change in the accounting policy, related to the presentation of some items in the statement of comprehensive income in 2009, are presented in the table below:

	<i>Note</i>	<b>December 31, 2009 BGN'000 audited</b>	<b>December 31, 2009 BGN'000 reclassifi- cation</b>	<b>December 31, 2009 BGN'000 restated</b>
Revenue	4	884,400	-	884,400
Other income	5	1,479	(571)	908
Cost of goods sold		(850,040)	-	(850,040)
Materials and consumables	6	(589)	-	(589)
Hired services	7	(15,338)	-	(15,338)
Employee benefits expenses	8	(4,579)	-	(4,579)
Depreciation and amortisation expenses	13	(1,559)	-	(1,559)
Impairment of assets	9	200	-	200
Other expenses	10	(4,060)	1,052	(3,008)
Finance income	11	1,533	571	2,104
Finance cost	11	(216,719)	(1,052)	(217,771)
(Loss) before taxation		(205,272)	-	(205,272)
Income tax benefit	12	1,876	-	1,876
<b>(Loss) for the year</b>		<b>(203,396)</b>	<b>-</b>	<b>(203,396)</b>
<b>Total comprehensive income for the year</b>		<b>(203,396)</b>	<b>-</b>	<b>(203,396)</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**26. Changes in accounting policies (continued)**

The effects of the change in the accounting policy, related to the presentation of some items in the statement of financial position in 2009, are presented in the table below:

	December 31, 2009 BGN'000 audited	December 31, 2009 BGN'000 reclassifi- cation	December 31, 2009 BGN'000 restated
<b>Non-current assets</b>			
Property, plant, equipment and intangible assets	44,217	-	44,217
Investments in associates	22,094	-	22,094
Compulsory stock		13,398	13,398
Deferred tax assets	1,464	-	1,464
<b>Total non-current assets</b>	<b>67,775</b>	<b>13,398</b>	<b>81,173</b>
<b>Current assets</b>			
Inventories	34,352	(13,398)	20,954
Interest-bearing loans granted	28,084	-	28,084
Trade and other receivables	41,176	-	41,176
Short-term financial assets	319,331	-	319,331
Income tax receivable	-	-	-
Cash	9,211	-	9,211
<b>Total current assets</b>	<b>432,154</b>	<b>(13,398)</b>	<b>418,756</b>
<b>Total assets</b>	<b>499,929</b>	<b>-</b>	<b>499,929</b>
<b>Equity</b>			
Share capital	62,757	-	62,757
Retained earnings	(24,101)	-	(24,101)
<b>Total equity</b>	<b>38,656</b>	<b>-</b>	<b>38,656</b>
<b>Non-current liabilities</b>			
Interest-bearing loans	304,989	-	304,989
<b>Total non-current liabilities</b>	<b>304,989</b>	<b>-</b>	<b>304,989</b>
<b>Current liabilities</b>			
Trade and other payables	144,877	-	144,877
Interest-bearing loans	11,293	-	11,293
Income tax payable	114	-	114
<b>Total current liabilities</b>	<b>156,284</b>	<b>-</b>	<b>156,284</b>
<b>Total liabilities</b>	<b>461,273</b>	<b>-</b>	<b>461,273</b>
<b>Total equity and liabilities</b>	<b>499,929</b>	<b>-</b>	<b>499,929</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**26. Changes in accounting policies (continued)**

The effects of the change in the accounting policy related to the presentation of some items in the statement of financial position as of January 1, 2009 are presented in the table below:

	January 1, 2009 BGN'000 audited	January 1, 2009 BGN'000 reclassify- cation	January 1, 2009 BGN'000 restated
<b>Non-current assets</b>			
Property, plant, equipment and intangible assets	43,591	-	43,591
Investments in associates	22,094	-	22,094
Receivables on interest-bearing loans	-	-	-
Compulsory stocks	-	442	442
Total non-current assets	65,685	442	66,127
<b>Current assets</b>			
Inventories	21,569	(442)	21,127
Trade and other receivables	37,744	-	37,744
Short-term financial assets	503,520	-	503,520
Income tax receivable	6000	-	6000
Cash	15,513	-	15,513
Total current assets	584,346	(442)	583,904
<b>Total assets</b>	<b>650,031</b>	<b>-</b>	<b>650,031</b>
<b>Equity</b>			
Share capital	62,757	-	62,757
Retained earnings	179,295	-	179,295
Total equity	242,052	-	242,052
<b>Non-current liabilities</b>			
Interest-bearing loans	299,781	-	299,781
Deferred tax liabilities	970	-	970
Total non-current liabilities	300,751	-	300,751
<b>Current liabilities</b>			
Trade and other payables	101,455	-	101,455
Interest-bearing loans	5,568	-	5,568
Derivative liabilities	205	-	205
Total current liabilities	107,228	-	107,228
<b>Total liabilities</b>	<b>407,979</b>	<b>-</b>	<b>407,979</b>
<b>Total equity and liabilities</b>	<b>650,031</b>	<b>-</b>	<b>650,031</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2010

**26. Changes in accounting policies (continued)**

The effects of the change in the accounting policy in the presentation of some items in the statement of cash flows in 2009 are presented in the table below:

	December 31, 2009 BGN'000 audited	December 31, 2009 BGN'000 reclassifi- cation	December 31, 2009 BGN'000 restated
<b>Cash flows from operating activities</b>			
Proceeds from customers	1,020,738	(399)	1,020,339
Payments to suppliers	(620,662)	-	(620,662)
VAT and excise duty refunded from the state budget	2,822	-	2,822
VAT and excise duty paid to the state budget	(351,815)	593	(351,222)
Payments to employees	(4,521)	-	(4,521)
Cash generated from operations	46,562	194	46,756
Income tax paid	(18)	-	(18)
Net cash generated by operating activities	46,544	194	46,738
<b>Cash flows from investing activities</b>			
Payments for financial assets held for trading	(181)	-	(181)
Proceeds from sale of financial assets held for trading	861	-	861
Payments for purchase of property, plant and equipment	(2,224)	-	(2,224)
Proceeds from sale of property, plant and equipment	315	-	315
Interest-bearing loans granted, net	(28,084)	-	(28,084)
Interest received	536	399	935
Cash flows used in dealing with derivatives, net	(1,180)	-	(1,180)
Dividends received	766	-	766
Net cash used in investing activities	(29,191)	399	(28,792)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	19,863	-	19,863
Repayment of borrowings	(4,604)	-	(4,604)
Interest and commissions paid	(25,288)	(593)	(25,881)
Net cash used in financing activities	(10,029)	(593)	(10,622)
<b>Net increase of cash for the year</b>	<b>7,324</b>	<b>-</b>	<b>7,324</b>
<b>Cash at the beginning of the year</b>	<b>2,364</b>	<b>-</b>	<b>2,364</b>
Foreign exchange rate losses	(571)	-	(571)
<b>Cash at the end of the year (see note 20)</b>	<b>9,117</b>	<b>-</b>	<b>9,117</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**26. Changes in accounting policies (continued)**

**26.1. Change in the accounting policy in presentation of other income and expenses**

In the current period the Company has adopted to present the income and expenses on late payment penalties from customers and to suppliers as interest income and expenses in the statement of comprehensive income. The Management believes that this change in the accounting policy will result in better presentation in the financial statements and it is in accordance with the group policy. In order to achieve comparability, the information for the preceding period is reclassified.

**26.2. Change in the accounting policy in presentation of inventories**

In 2010 the Company's Management decided to present in the statement of financial position the inventories stored under the Mandatory Stocks of Crude Oil and Petroleum Products Act (MSCOPPA) as non-current assets, because it is not expected to realise them in Company's operating activity more than twelve months after the date of the financial statements. In order to achieve comparability, the information for the preceding period is reclassified.

**27. Contingent receivables and liabilities**

**27.1. Contingent receivables**

In 2006 the Company has recognised income from penalties amounting to BGN 8,196 thousand, calculated to counterparty (the Counterparty) because of a quantitative non-execution of a fuel supply contract. As of December 31, 2006 the income has been reversed, because the management has assessed that the income recognition criteria in accordance with IAS 18 Revenue have not been met. In the view of this fact a contingent asset amounting to BGN 8,196 thousand arises for the Company, because the receivable from the Counterparty was not recognised in these financial statements.

**27.2. Contingent liabilities**

In October 2006 the Company became a guarantee for the parent company on a bond issue, to the amount of EUR 100,000 thousand with maturity in 2011.

Assets with a carrying amount of BGN 8,438 thousand (2009: BGN 1,990 thousand) are mortgaged and serve as collateral for bank loans granted to related party (see also note 13).

As a result from the import of fuels in 2010 the Company is obliged to establish and store fuels under the Mandatory Stocks of Crude Oil and Petroleum Products Act (MSCOPPA). This obligation for the period from May 1, 2011 to April 30, 2012 was determined on March 24, 2011 and is at the amount of 10,304.860 tones gasoline, 6,230.071 tones diesel fuel and 870.449 tones industrial gas oil. On April 30, 2011 the compulsory stocks are provided

The Company is a guarantor in respect of payables to suppliers of a related party amounted to 12.683 thousand.

In 2010 three penalty enactments at the total amount of BGN 3,860 thousand were delivered to the Company, which have been appealed in the court. The Management believes that the probability for cancellation of the imposed penalties is very high due to the fact that two of cases were won at first instance and the third appeal is pending to be considered.

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the year ended December 31, 2010*

**28. Events after the reporting period**

In January 2011 a new subsidiary Naftex Petrol Trade EOOD was established with authorised share capital at the amount of BGN 5 thousand. As of the date of these financial statements the paid-in share capital is at the amount of BGN 10.

In February, 2011 the company paid off trade receivables to related party at the amount of USD 19,140 thousand through assumption of a loan of the related party to a Bulgarian bank. The loan is collateralised with registered pledge of plant and equipment and mortgage of property.

In February 2011 the Company has repaid bank loan at the amount of BGN 10,002 thousand (see also note 22)

In March 2011 the Company issued a letter of credit in favour of a supplier for fuel delivery at the amount of USD 5,500 thousand with maturity date May 31, 2011.

In April 2011 the Company acquired 59.961 shares of the capital of Eurocapital Bulgaria AD for BGN 4,543 thousand and thus the Company became a sole shareholder.

On April 15, 2011 a bank guarantee was issued in favour of a supplier for fuel delivery at the amount of USD 8,600.

At the extraordinary general meeting of the shareholders of the Parent company held in November, 2010 a decision was taken for providing an in-kind contribution in the equity of Naftex Petrol EOOD, as subject of the contribution is part of the receivable under loan agreement – principal and interest at the amount of BGN 200,000 thousand, against which the Parent company acquired 20,000,000 shares with nominal value BGN 10 each. On April 30, 2011 the share increase in the Company's equity was entered into the Trade Register.

As of May 5, 2011 as a result of a decrease in the price of shares traded on the Bulgarian Stock Exchange, the Company remeasured the assets held for trading and recognised a loss at the amount of BGN 54,455 thousand (see also note 11).