Svilosa AD

Consolidated financial statements for the year ended 31 December 2012 with Auditor's Report Thereon

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Independent auditors' report

Consolidated statement of financial position
As at 31 December
In thousands of BGN

	Note	2012	2011
Assets			
Property, plant and equipment	16	96,991	99,694
Intangible assets	17	170	277
Investment property	18	206	143
Investments	19	30	30
Loans granted	20	151	-
Deferred tax assets	21	221	905
Total non-current assets		97,769	101,049
Inventories	22	12,745	10,952
Related party receivables	31	46	64
Loans granted	20	79	248
Trade and other receivables	23	13,007	10,109
Cash and cash equivalents	24	1,446	3,886
Total current assets		27,323	25,259
Total assets		125,092	126,308
Equity			
Share capital	25	31,755	31,755
Reserves	25	31,621	25,292
Retained earnings		(6,442)	(8,320)
Total equity		56,934	48,727
Liabilities			
Loans and borrowings	27	39,337	1,062
Bank overdrafts	27	-	2,693
Payables to related parties	31	-	2,984
Deferred tax liabilities	21	1,572	1,689
Advances received	34	-	1,375
Employee benefits	29	139	144
Total non-current liabilities		41,048	9,947
Loans and borrowings	27	8,072	55,086
Bank overdrafts	27	10,552	5,867
Employee benefits	29	51	51
Income tax payable		202	194
Payables to related parties	31	474	48
Trade and other payables	30	7,759	6,388
Total current liabilities		27,110	67,634
Total liabilities		68,158	77,581
Total equity and liabilities		125,092	126,308

The notes on pages 7 to 55 are an integral part of these consolidated financial statements.

Executive Director: Mihail Kolchev

Chief Accountant: Zarka Parvanova

In accordance with an Independent Auditors' Report:

Margarita Goleva
Director
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

София
Рег. №045
"КПМГ - България" ООД

Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of BGN

	Note	2012	2011
Revenue	7	85,024	99,245
Cost of sales	8	(66,578)	(76,640)
Gross profit		18,446	22,605
Other income	9	8,284	8,587
Distribution expenses	10	(8,670)	(10,194)
Administrative expenses	11	(2,302)	(3,300)
Other expenses	12	(3,404)	(6,246)
Results from operating activities		12,354	11,452
Finance income		62	65
Finance cost		(3,407)	(4,481)
Net finance cost	14	(3,345)	(4,416)
Profit before tax		9,009	7,036
Tax expense	15	(802)	(813)
Profit for the period		8,207	6,223
Other comprehensive income			
Translation reserve		-	(89)
Total comprehensive income		8,207	6,134
Earnings per share			
Basic earnings per share and diluted earnings per share (BGN)	26	0.26	0.19

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Registered auditor

Consolidated statement of changes in equity
For the year ended 31 December

In thousands of BGN	Note	Share capital	Reserves	Translation reserve	Retained earnings	Total
Balance at 1 January 2011	25	31,755	21,447	89	(10,698)	42,593
Total comprehensive income for the period						
Profit for the period		-	-	-	6,223	6,223
Other comprehensive income		-	-	(89)	-	(89)
Total comprehensive income for the period		-	-	(89)	6,223	6,134
Transactions with owners, recorded directly in equity						
Transfers to reserves		-	3,845	-	(3,845)	-
Balance at 31 December 2011	25	31,755	25,292	-	(8,320)	48,727
Balance at 1 January 2012	25	31,755	25,292	-	(8,320)	48,727
Total comprehensive income for the period						
Profit for the year		-	-	-	8,207	8,207
Other comprehensive income						
Total comprehensive income for the period		-	-	-	8,207	8,207
Transactions with owners, recorded directly in equity						
Transfers to reserves		-	6,329	-	(6,329)	-
Balance at 31 December 2012	25	31,755	31,621	-	(6,442)	56,934

The notes on pages 7 to 55 are an integral part of these consolidated financial statements.

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Director

KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Consolidated statement of cash flows
For the year ended 31 December

In thousands of BGN	Бел	2012	2011
Cash flows from operating activities			
Profit before taxes		9,009	7,036
Adjustments for:			
Depreciation and amortization	16,17, 18	5,899	5,671
Gain from sales of property, plant and equipment	9	(87)	(11)
Gain from exchange of property, plant and equipment		(81)	-
Gain from acquisition of investment property		(177)	-
Payables written off	9	(125)	(73)
Expenses for impairment and write-off of receivables	12	218	506
Impairment of quotas for trading carbon emissions	12	-	96
Translation reserve		-	(89)
Profit from sales of quotas for trading carbon emissions	9	(956)	(3,612)
Scraped fixed assets	12	406	230
Interest income	14	(62)	(65)
Interest expense	14	3,141	4,056
Operating profit before working capital changes		17,185	13,745
(Increase)/decrease in inventories		(1,793)	2,695
(Increase)/decrease in trade and other receivables		(4,678)	(2,286)
Increase/(decrease) in trade and other payables		(3,285)	(3,085)
Increase/(decrease) in provisions and employee benefits		(5)	16
Cash generated from operating activities		7,424	11,085
Interest paid		(2,164)	(2,616)
Interest received		55	51
(Paid) / received income tax		(225)	(71)
Net cash from operating activities		5,090	8,449
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		87	3
Acquisition of property, plant and equipment		(3,115)	(4,626)
Acquisition of quotas for trading carbon emissions		1,244	3,261
Loans granted		(109)	-
Repayment of loans granted		40	-
Net cash used in investing activities		(1,853)	(1,362)
Cash flows from financing activities			
Proceeds from received loans		3,911	-
Repayments of loans		(11,500)	(11,532)
Repayment of lease liabilities		(80)	(147)
Proceeds from received bank overdrafts		31,668	61,079
Repayment of bank overdrafts		(29,676)	(54,451)
Net cash from (used in) financing activities		(5,677)	(5,051)

Consolidated statement of cash flows (continued)
For the year ended 31 December

Net increase/(decrease) in cash and cash equivalents		(2,440)	2,036
Cash and cash equivalents at the beginning of the year		3,886	1,850
Cash and cash equivalents at the end of the year	24	1,446	3,886

The notes on pages 7 to 55 are an integral part of these consolidated financial statements.

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Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1. Reporting entity

Svilosa AD (the "Company") is a company domiciled in town of Svishtov, Industrial Area, Bulgaria. The Company is registered with the Commercial Register at the Bulgarian Registry Agency with ID code 814191178.

The consolidated financial statements of the Company for the year, ended 31 December 2012 include the financial statements of the Company and those of its subsidiaries (together referred as "The Group" and separately as "The Companies from the Group").

Svilosa AD is a public company and it is listed on Bulgarian Stock Exchange, its code is 3MZ

The main activities of the Group consist of production of Sulfate Bleached Hardwood Pulp and related products.

2. Basis of preparation

(a) Statement of compliance

The present financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The consolidated financial statements were authorised for issue by the Board of Directors on 22 April 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost.

(c) Functional and presentation currency

These consolidated financial statements are presented in BGN, which is the Company's functional currency. All financial information presented in BGN has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 36 Contingencies

Notes to the consolidated financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the following differences which are recognised in other comprehensive income arising on the retranslation of:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss),
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

Effective 1 January 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
The Group has the following non-derivative financial assets:loans and receivables and available-for sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as financial assets at fair value through profit and loss, held-to-maturity financial assets, loans and receivables. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)) and foreign currency differences on available-for sale equity instruments are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Unmarketable equity investments are measured at cost.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)
(c) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments

During 2011 and 2012 the Group does not hold derivative financial instruments to hedge foreign currency, interest rate risk exposures, or cash flows.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see bellow) and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset, as well as any other costs directly attributable to bringing the asset to a working condition for its intended use

The cost of the assets under construction includes the cost of materials, the direct labor and the appropriate proportion of production overheads.; the expenses directly attributable to bringing the asset to the working location for its intended use; the initial valuation of the costs for dismantling and removing the items, and restoring the site at which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds from sales with the carrying amount of property, plant and equipment and recognized net in "Gain (loss) from sale of property, plant and equipment in profit and loss.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)
(d) Property, plant and equipment (continued)

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iii) Depreciation

Depreciation is charged in profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated for the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land and assets under construction are not depreciated. The depreciation of the asset begins when it is available for use, i.e. when it is in the location and in condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

- buildings 25 years;
- machinery and equipment 3 - 25 years;
- vehicles 5 - 12 years;
- fixture and fittings 6 years;
- others 6 years;

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(iv) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. The carrying amount of the transferred assets is perceived as deem cost as at the date of transfer of the assets to investment property in the Group's statement of financial position.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(e) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

The Group recognises as intangible assets purchased and granted by the state quotas for trading of carbon emissions. The quotas for trading of carbon emissions that are granted to the Company by the Bulgarian Government, in accordance with the national allocation plan 2008-2012 are accounted initially at cost, which in this case is zero. The quotas for trading of carbon emissions purchased by the Company are accounted at cost less accumulated impairment losses. The quotas for trading of carbon emissions are not amortized.

(i) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(ii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

- patents and trademarks 6 years;
- software 3 years;
- other 6 years;

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are stated at cost less amortization and impairment losses.

Investment property are transferred land and buildings from Property, plant and equipment. The carrying amount of the transferred assets is perceived as deem cost as at the date of transfer of the assets to investment property in the Group's statement of financial position.

When the use of a property changes such that it is reclassified as property, plant and equipment, cost at the date of reclassification becomes its cost for subsequent accounting.

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of the investment properties. Land is not depreciated. The depreciation of an investment property begins from the date it is available for use, i.e. from the date it is brought to the location and working condition necessary for its intended use. The estimated useful lives of the Group's investment properties are 25 years, determined by the Group's internal technical experts..

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on the normal production capacity.

(i) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(i) Impairment (continued)

(i) Financial assets (including receivables) (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) Non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Positive goodwill, which is part of the carrying amount of the investment in the associate is not recognized separately, and thus it is not tested for impairment. Instead, the total amount of the investment in the associate is tested for impairment as whole, when objective evidences that the investment might be impaired exist.

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Group has obligation to pay certain amounts to each employee who retires with a Group's Company in accordance with Art. 222, § 3 of the Labor Code in Bulgaria. According to these regulations in the LC, when a labor contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries.

As at balance sheet date, the Management of the Group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the financial statements in note 29.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Provisions related to environment

A provision is recognized by the Group, when it is probable that expenses will be incurred or recoverable works will be performed and the Group has a contractual or legal obligation to undertake such actions. When the expenses are expected to be incurred within a long period of time, the provision is recognized as present value of the expected future cash flows and the discount factor release is stated as financial expense.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(k) Provisions (continued)

(ii) Legal disputes

Where it is probable that an outflow of economic benefits will be required to settle obligation under a legal dispute, the Company recognises a provision. The provision is valued at the best estimate of the Company's legal advisors. If the amount of the obligation cannot be reliably measured a contingent liability is disclosed.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of pulp, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the premises of the seller. Generally for such products the buyer has no right of return.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property and plant and equipment is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(m) Leases

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(m) Leases (continued)

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, gains on disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(o) Taxes (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of the segments are evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing their performance, and for which discrete financial information is available.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2012, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC

- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. TheGroup does not expect the Amendments to have any impact on the financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect these standards to have an significant impact on these financial statements

- IFRS 13 *Fair Value Measurement* provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies in determining fair values (see Note 5). IFRS 13 shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013.

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income are shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2012. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

- Amended IAS 19 *Employee Benefits* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. If the Group were to adopt the amendments from 1 January 2012 it would not change the financial statements of the Group.

- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Group's accounting policy.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Interpretation to have any impact on the financial statements since the Company does not have any stripping activities.
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Amendments to have any impact on the financial statements.

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010)* has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 1 *Government Loans* with an effective date of 1 January 2013.
- Improvements to IFRSs 2009-2011 with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities with an effective date of 1 January 2014.

Notes to the consolidated financial statements

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(iii) Investment properties

Fair value, determined for disclosure purpose, is calculated based on the present value of future cash flows expected to be received from rents, after deduction of the direct operational expenses.

Notes to the consolidated financial statements

5. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements..

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. This exposure may also depend on the default risk of the industry and the internal market on which the Company operates.

Approximately 62 % of the Company's revenue realized in 2012 is attributable to sales transactions with ten customers (2011: 62 % of revenue is realised from sales to the first ten customers). During 2012 86% from the revenue of the Group are realized from export (2011: 94%).

The credit policy determines that each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Group's analysis includes but is not limited to requiring in most cases a letter of credit or a bank guarantee to be issued by the new customers in favour of the Group, amounting to the value of the inventories under the terms of deferred payment. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a cash basis. In rare cases as a security may be used a promissory note.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Group of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Notes to the consolidated financial statements

5. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for different periods (1 year, 60 days and weekly) including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

As a whole, the Group is exposed to currency risk because:

- Purchases of the basic goods and materials, which the Group trades or puts into production are denominated in BGN or EUR.
- The prevailing part of the export sales is denominated in EUR. Depending on the market conditions the percentage of the sales denominated in USD may reach 40% of the total revenue amount, in which cases the currency risk in respect of the revenue may be estimated as significant. Nevertheless the relatively short payment terms reduce the currency risk to the extent to which a correlation exists between the selling prices level and the exchange rate of USD against BGN.
- All the long-term loans and borrowings are denominated in EUR or BGN, which reduces the currency risk.

Interest rate risk

Interest rate risk relates to potential negative effects for the Group' financial results due to deviations of the interest rates. The Group is exposed to such risks mainly due to the loans with variable interest. The variable part represent 3 month or 6 month Euribor.

Capital management

The management's policy is to maintain a strong capital base so as to maintain owners and market confidence and to sustain future development of the business.

TThere were no changes in the Group's approach to capital management during the year..

Notes to the consolidated financial statements

5. Financial risk management (continued)

6. Segment reporting

The Group has one operating segment, as described below. The Group's Management review the internal management reports for each of the segments on at least a quarterly basis. The following summary describes the main operations in each of the Company's reportable segments:

- Pulp production - production and sale of Sulfate Bleached Hardwood Pulp used in the paper industry and in the other industries related to the production of Sulfate Pulp and production and sale of byproducts related to pulp production

Information regarding the results of each operating segment is disclosed below. Performance is measured based on the segment's profit or loss before tax, as reported in the internal management reports reviewed by the Company's Executive Director. The segments' profit or loss is used as a basis for measuring their performance due to the fact that management considers such information to be the most relevant in evaluating the results of the segments as compared to other entities operating within these industries.

Notes to the consolidated financial statements

6. Segment reporting (continued)

Operating segments

In thousands of BGN	**Pulp production**		**Total**	
	2012	**2011**	**2012**	**2011**
External revenues	85,024	99,245	85,024	99,245
Inter-segment revenue	-	-	-	-
Interest expenses	(3,103)	(4,015)	(3,103)	(4,015)
Depreciation and amortization	(5,790)	(5,563)	(5,790)	(5,563)
Reportable segment profit before tax	7,660	4,719	7,660	4,719
Reportable segment assets	121,558	122,947	121,558	122,947
Reportable segment liabilities	65,332	76,926	65,332	76,926
Capital expenditure	2,683	1,742	2,683	1,742

	2012	**2011**
Revenue		
Total revenue for reportable segments	85,024	99,245
Consolidated revenue	85,024	99,245
Profit or loss		
Total profit or loss for reportable segments	7,660	4,719
Unallocated amounts:		
Other income (expense)	1,349	2,317
Consolidated profit (loss) before income tax	9,009	7,036
Assets		
Total assets for reportable segments	121,558	122,947
Unallocated assets	3,534	3,361
Consolidated total assets	125,092	126,308
Liabilities		
Total liabilities for reportable segments	65,332	76,926
Unallocated liabilities	2,826	655
Consolidated total liabilities	68,158	77,581
Depreciation and amortization		
Total depreciation and amortisation for reportable segments	5,790	5,563
Unallocated depreciation and amortisation	109	108
Consolidated total depreciation and amortisation	5,899	5,671
Interest expenses		
Total interest expenses for reportable segments	3,103	4,015
Unallocated interest expenses	38	41
Consolidated total interest expenses	3,141	4,056

Notes to the consolidated financial statements

6. Segment reporting (continued)

Geographical segments

The segment "Pulp production" is managed on global level, but only production facilities, located in Bulgaria are used.

In disclosing the information based on the geographical segments, the segment's revenue is based on the geographical location of the clients.

Geographical information *In thousands of BGN*	**2012**	**2011**
Euro zone	30,239	37,160
Non euro-zone	42,836	55,944
Domestic market	11,949	6,141
	85,024	99,245

"Euro zone" is used in the sense of countries which has adopted the EUR as a national currency. "Non euro-zone" is used in sense of countries, which official currency is different from EUR. "Domestic market" covers the territory of Bulgaria.

7. Revenue

In thousands of BGN	**2012**	**2011**
Pulp	82,505	96,824
Carboxymethyl cellulose	771	1,045
Other	1,748	1,376
	85,024	99,245

8. Cost of sales

In thousands of BGN	**2012**	**2011**
Pulp	64,826	75,608
Carboxymethyl cellulose	509	670
Other	1,243	362
	66,578	76,640

Notes to the consolidated financial statements

9. Other income

In thousand of BGN	2012	2011
Profit from sales of materials	477	434
Profit from sales of goods	13	309
Profit from sales of reduced carbon emission	5,307	3,690
Profit from sales of quotas for trading of carbon emissions	956	3,612
Profit from sales of property, plant and equipment	87	11
Profit from sales of services	88	241
Profit from sales of investment in subsidiary	307	40
Liabilities written off	125	73
Profit from exchange of property, plant and equipment	81	-
Other income	843	177
	8,284	8,587

	2012	2011
Income from sales of fixed assets	87	22
Net book value of sold fixed assets	-	(11)
	87	11

In September 2012 the Group sold its investments in the subsidiary Ecosvil EOOD. In December 2011, the Group has sold its investment in the subsidiary Svilosa Bio SRL.

10. Distribution expenses

In thousand of BGN	2012	2011
Materials expenses	197	235
Hired service expenses	8,219	9,684
Depreciation and amortization	38	32
Personnel expenses	206	223
Other operating expenses	10	20
	8,670	10,194

11. Administrative expenses

In thousand of BGN	2012	2011
Materials expenses	213	370
Hired service expenses	645	1,169
Depreciation and amortization	176	165
Personnel expenses	1,099	1,269
Other operating expenses	169	327
	2,302	3,300

Notes to the consolidated financial statements

12. Other operating expenses

In thousand of BGN	2012	2011
Impairment and written off receivables	218	506
Fixed overheads related to stoppage of production	-	5,108
Impairment of purchased quotas for trading of carbon emissions	-	96
Obligation for providing quotas for carbon emission to the state	55	100
Scraped and impaired property, plant and equipment and investment property	406	230
Expenses for taxes and fees	57	73
Loss from production under normal capacity	2,574	-
Other expenses	94	133
	3,404	6,246

13. Personnel expenses

In thousand of BGN	2012	2011
Wages and salaries	4,123	4,289
Expenses related to defined benefits	33	46
Compulsory social security contributions	731	748
	4,887	5,083

The average number of employees during the year ended 31 December 2012 is 502 (2011: 508)

14. Net financing costs

In thousand of BGN	2012	2011
Interest expense	(3,141)	(4,056)
Net foreign exchange loss	(38)	(194)
Other finance expenses	(228)	(231)
Finance expenses	(3,407)	(4,481)
Interest income	62	65
Financial income	62	65
	(3,345)	(4,416)

Notes to the consolidated financial statements

15. Income tax expense

In thousands of BGN	2012	2011
Current tax expense		
Current year	235	258
	235	258
Deferred tax expense		
Origination and reversal of temporary differences	567	555
	567	555
Total income tax expense	802	813

Effective tax rate

In thousands of BGN	2012	2012	2011	2011
Profit for the period		8,207		6,223
Total income tax expense		(802)		(813)
Profit excluding income tax		9,009		7,036
Income tax using the Company's domestic tax rate	10%	(900)	10%	(704)
Non-deductible expenses	-	(12)	-	(4)
Tax effect from deferred taxes, which were not in the current period		-	1%	(52)
Recognition of previously unrecognised deferred taxes	(1.2%)	110	1%	(53)
	8.8%	(802)	12%	(813)

Notes to the consolidated financial statements

16. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Assets under construction	Total
Cost						
Balance at 1 January 2011	9,792	102,569	1,440	192	11,253	125,246
Additions	58	2,367	248	-	1,744	4,417
Disposals	(13)	(734)	(33)	(21)	-	(801)
Transfers	1,044	10,971	-	-	(12,015)	-
Balance at 31 December 2011	10,881	115,173	1,655	171	982	128,862
Balance at 1 January 2012	10,881	115,173	1,655	171	982	128,862
Additions	114	415	0	2	2,704	3,235
Disposals	1,142	1,603	(36)	(2)	(2,785)	(78)
Transfers	-	(70)	(10)	-	-	(80)
Balance at 31 December 2012	12,137	117,121	1,609	171	901	131,939
Depreciation and impairment losses						
Balance at 1 January 2011	1,838	21,372	703	189	-	24,102
Depreciation for the year	331	5,156	140	2	-	5,629
Disposals	(6)	(524)	(12)	(21)	-	(563)
Balance at 31 December 2011	2,163	26,004	831	170	-	29,168
Balance at 1 January 2012	2,163	26,004	831	170	-	29,168
Depreciation for the year	346	5,333	176	2	-	5,857
Disposals	(1)	(28)	(46)	(2)	-	(77)
Balance at 31 December 2012	2,508	31,309	961	170	-	34,948
Carrying amount						
At 1 January 2011	7,954	81,197	737	3	11,253	101,144
At 31 December 2011	8,718	89,169	824	1	982	99,694
At 1 January 2012	8,718	89,169	824	1	982	99,694
At 31 December 2012	9,629	85,812	648	1	901	96,991

Notes to the consolidated financial statements

16. Property, plant and equipment (continued)

Allocation of the depreciation charges for the period

Depreciation expenses for the year are included in the following items of the financial statements:

In thousand of BGN	**2012**	**2011**
Cost of sales (inventories and services) and finished goods in stock and work in progress	4,831	4,700
Fixed overheads related to stoppage of production	-	732
Loss from production under normal capacity	855	-
Distribution cost	38	32
Administrative expenses	133	165
	5,857	5,629

Pledged assets

The investment bank loans from the European Bank for Reconstruction and Development (EBRD) and Nordic Investment Bank (NIB), amounting totally to EUR 28 million, are secured with a registered enterprise pledge of Svilosa AD and Svilocell EAD as a going concern. In the following years, the pledge is regularly updated with all acquired assets. As at 31 December 2012 and as at 31 December 2011, all property, plant and equipment of both companies are pledged under those contracts.

As at 31 December 2012, the Group has pledged items of property, plant and equipment with a carrying amount of BGN 15,270 thousand, for securing bank overdrafts and loans.

Assets, acquired under finance lease agreements

As at 31 December 2012 the carrying amount of the assets acquired under finance lease is BGN 309 thousand (2011: BGN 575 thousand).

Notes to the consolidated financial statements

17. Intangible assets

In thousand of BGN	Licences	Software	Carbon quotas	Other	Total
Cost					
Balance at 1 January 2011	143	362	-	18	523
Additions	-	4	351	-	355
Transfers					
Balance at 31 December 2011	143	366	351	18	878
Balance at 1 January 2012	143	366	351	18	878
Additions	-	12	-	5	17
Disposals	-	-	(100)	-	(100)
Balance at 31 December 2012	143	378	251	23	795
Amortisation and impairment losses					
Balance at 1 January 2011	138	322	-	18	478
Amortization for the year	3	24	-	-	27
Impairment loss	-	-	96	-	96
Balance at 31 December 2011	141	346	96	18	601
Balance at 1 January 2012	141	346	96	18	601
Amortization for the year	1	23	-	-	24
Balance at 31 December 2012	142	369	96	18	625
Carrying amount					
At 01 January 2011	5	40	-	-	45
At 31 December 2011	2	20	255	-	277
At 01 January 2012	2	20	255	-	277
At 31 December 2012	1	9	155	5	170

Allocation of the depreciation charges for the period

Depreciation expenses for the year are included in the following items of the financial statements:

In thousand of BGN	2012	2011
Administrative cost	24	27
	24	27

Notes to the consolidated financial statements

18. Investment property

In thousand of BGN

	2012	2011
Cost at 01 January	510	510
Additions	425	-
Disposals	(335)	-
Cost at 31 December	600	510
Accumulated depreciation at 01 January	367	352
Depreciation for the year	18	15
Impairment loss	264	-
Depreciation written-off	(255)	-
Accumulated depreciation at 31 December	394	367
Carrying amount at 31 December	206	143

The Group rents lands and buildings to companies operating on the territory of Svilosa AD. Therefore lands and buildings are transferred from property, plant and equipment and are presented as investment property as at 31 December 2012 and 2011.

At 31 December 2012 the fair value of the investment property is estimated at BGN 697 thousand The valuation is prepared by a licenced valuer.

Allocation of the depreciation charges for the period

Depreciation expenses for the year are included in the following items of the financial statements:

In thousand of BGN

	2012	2011
Cost of sales	18	15
Distribution cost	-	-
Administrative cost	-	-
	18	15

19. Investments

Available-for-sale long term investments, carried at cost

In thousand of BGN

	2012	2011
KK Baldumor	2	2
Fond Industria	6	6
Other	22	22
	30	30

Notes to the consolidated financial statements

20. Loans granted

In thousand of BGN

Non-current loans	2012	2011
Loans granted to non-related parties	151	-
	151	-
Current loans		
Loans granted to non-related parties	79	-
Loan granted to an individual	-	248
	79	248

The loan granted to an individual represents a loan granted to a former employee of the Group, against whom the Group submitted a legal claim for repayment of the loan. The court decided the case in favor of the Group. In 2012 the parties signed an agreement in order to settle their relationships, by virtue of which the individual's liability is repaid by a transfer of properties of the individual to the Company. The amount of the acquired properties is BGN 425 thousand and include the principal of the liability plus interest due. The interest due was not accrued in previous periods due to uncertainty of its collectability. The difference between the principal due as at 31.12.2011 (BGN 248 thousand) and the total amount due as determined by the court, amounting to BGN 425 thousand, was recognized as other income. The acquired properties are presented as investment properties. As at 31.12.2012 the Company reviewed the value of the investment properties based on an appraisal of a licensed valuer. As result of the review the Company recognized impairment loss amounting to BGN 264 thousand in other expenses.

As at 31 December 2012 the Group granted loans to non-related parties. The long-term loan amounting to BGN 151 thousand, has 8% interest rate and is contracted for repayment until 2016.

Notes to the consolidated financial statements

21. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

In thousand of BGN	Assets 2012	Assets 2011	Liabilities 2012	Liabilities 2011	Net 2012	Net 2011
Property, plant and equipment	(101)	(831)	1,597	1,692	1,496	861
Intangible assets	(6)	(9)	-	-	(6)	(9)
Investment property	(7)	-	-	26	(7)	26
Payables to personnel	(6)	(7)	-	-	(6)	(7)
Retirement benefits provisions	(19)	(20)	-	-	(19)	(20)
Impairment of receivables	(97)	(51)	-	-	(97)	(51)
Impairment of inventory	(10)	(16)	-	-	(10)	(16)
Tax (assets)/liabilities	(246)	(934)	1,597	1,718	1,351	784
Setting off of deferred tax	25	29	(25)	(29)	-	-
Net tax (assets)/liabilities	(221)	(905)	1,572	1,689	1,351	784

Movement in temporary differences during the year

В хиляди лева	Balance at 1 January 2012	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December 2012
Property, plant and equipment	861	635	-	1,496
Intangible assets	(9)	3	-	(6)
Investment property	26	(33)	-	(7)
Payables to personnel	(7)	1	-	(6)
Retirement benefits provisions	(20)	1	-	(19)
Impairment of receivables	(51)	(46)	-	(97)
Impairment of inventory	(16)	6	-	(10)
	784	567	-	1,351

В хиляди лева	Balance at 1 January 2011	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December 2011
Property, plant and equipment	872	(11)	-	861
Intangible assets	4	(13)	-	(9)
Investment property	11	15	-	26
Payables to personnel	(8)	1	-	(7)
Impairment of receivables	(50)	(1)	-	(51)
Retirement benefits provisions	(18)	(2)	-	(20)
Impairment of inventory	(33)	17	-	(16)
Tax loss carry-forwards	(549)	549	-	-
	229	555	-	784

Notes to the consolidated financial statements

22. Inventories

In thousand of BGN

	2012	2011
Raw materials and consumables	10,776	10,815
Finished goods	1,719	103
Work-in-progress	250	34
	12,745	10,952

23. Trade and other receivables

In thousand of BGN

	2012	2011
Trade receivables	9,094	6,359
Court receivables	-	33
Prepayments for acquisitions of property, plant and equipment	332	906
Receivables from sales of reduced carbon emissions	542	-
Tax receivables (VAT)	2,433	1,582
Prepayments for raw materials	348	385
Other receivables	258	844
	13,007	10,109

24. Cash and cash equivalents

In thousand of BGN

	2012	2011
Cash in hand	7	1
Bank balances	117	371
Blocked cash under letter of credits	1,236	1,236
Bank deposits	86	2,278
Cash and cash equivalents in statement of financial position	1,446	3,886

The blocked cash represent a letter of credit, issued in favor of supplier, related to fulfillment of the project for reconstruction (expansion) of the plant, which are blocked in relation with an outstanding litigation (see note 36).

Notes to the consolidated financial statements

25. Capital and reserves

Share capital

In thousands of shares	Ordinary shares 2012	2011
On issue at 1 January	31,755	31,755
Issued for cash	-	-
On issue at 31 December – fully paid	31,755	31,755

As at 31 December 2012 the share capital is distributed among 31,754,944 shares with a par value of BGN 1 each, as follows:

Shareholder	2012 *Number of shares*	*%*	2011 *Number of shares*	*%*
ARUS Holding AD, Svishtov	25,615,674	81	25,615,674	81
KBD	4,000,000	13	4,000,000	13
HVB AG ATHENS	-	-	724,801	2
Svilosa 2000	598,790	2	598,790	2
NATIONAL BANK OF GREECE CLIENTS	215,918	-	-	-
Other	1,324,562	4	815,679	2
	31,754,944	100	31,754,944	100

Reserves

The statutory reserves are formed from the distributable profit allocated each year by decision of the Group's management. As per the Bulgarian Commercial Act, statutory reserves are formed through allocation of 1/10 of the annual profit until reaching 1/10 or more of the Company's registered capital.

Notes to the consolidated financial statements

26. Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the net profit attributable to the ordinary shareholders amounting to BGN 8,207 thousand (2011: BGN 6,223 thousand) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2012 – 31,754,944 (2011: 31,754,944). Basic and diluted earnings per share are the same in both 2012 and 2011.

27. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more details about the Company's exposure to interest rate and currency risk, refer to note 28.

In thousand of BGN

Current liabilities	Note	2012	2011
Bank overdraft contracts		10,552	5,867
Finance lease liabilities		96	122
Secured bank loans		7,976	52,535
Loans from third parties		-	2,429
		8,072	55,086
		18,624	60,953
Non-current liabilities		**2012**	**2011**
Bank overdraft contracts		-	2,693
Loans from related parties	31	8,211	1,008
Loans from third parties		31,126	-
Finance lease liabilities		-	54
		39,337	1,062
		39,337	3,755
		57,961	64,708

The Group has concluded the following loan contracts:

(a) *Loan agreements with the European Bank for Reconstruction and Development (EBRD) and the Nordic Investment Bank (NIB)*

In November and December 2005 Svilosa AD signed loan agreements with European Bank for Reconstruction and Development (EBRD) and Nordic Investment Bank (NIB) for the financing of a project for increasing the capacity of pulp production. Total value of the project is about EUR 50 million. Pursuant to the terms of the loan agreements in December 2005 Svilosa AD made an in-kind contribution of assets related to pulp production to its subsidiary Svilocell EAD.
On 28 March 2006 the loan agreements were amended and Svilocell EAD was added as a co-borrower and the executor of the investment project. The terms of the loan from the EBRD and the NIB are as follows: EBRD grants a long-term loan with a maximum principal of EUR 18,000,000 and NIB grants a long-term loan with a maximum principal of EUR 10,000,000. The Company utilized the total amount of the contracted loans – EUR 28,000,000.

Notes to the consolidated financial statements

27. Interest-bearing loans and borrowings (continued)

(a) *Loan agreements with the European Bank for Reconstruction and Development (EBRD) and the Nordic Investment Bank (NIB) (continued)*

As at 31 December 2011 Svilocell EAD was in default to the bank loan contracts with EBRD and NIB, and this was the reason the loans to be presented as current liabilities in the financial statements of the Group. The default took place in 2009 when Svilocell ceased paying the amounts owed under the bank loan agreements, due to the deteriorated financial positions of Svilocell EAD in that time. In 2010 Svilocell EAD paid part of the interest expenses due.

On 5 and on 12 April 2011 Svilocell EAD signed preliminary agreements with NIB and EBRD, which defined the general terms for restructuring of the bank loan contracts. Since March 2011 Svilocell EAD has been paying regularly the agreed installments to EBRD and NIB in accordance with the new repayment schedules enclosed to the preliminary agreements.

Svilocell EAD signed amendment agreements with NIB and EBRD on 30 December 2011 and 12 January 2012 respectively, which defined all terms related to restructuring of the bank loans. As at the date of authorisation for issue of the consolidated financial statements for 2011 the amendments were not effective yet, since it required a period of time for completing the additional conditions, defined in the amendment agreements. The main additional conditions related to providing of additional guarantees and securities by Svilocell EAD, Svilosa AD, ARUS Holding and other companies from Svilosa Group and taking of responsibility by the majority shareholder of Svilosa AD – ARUS Holding AD for providing of additional funds amounting up to EUR 2.8 million. According to the signed amendment agreements the bank loans would be repaid in quarterly installments. The repayment schedules cover the period from March 2012 to October 2015.

The installments payable in 2012 were repaid by Svilocell EAD

Svilosa AD and Svilocell EAD received a letter dated 16 October 2012 from both banks, which certifies that the amendments become effective. According to the terms of the loan agreements Svilocell EAD and Sviloza AD (on consolidated basis) should maintain specified financial ratios as at 31 December.

From 01 January 2012 until 31 December 2012, the Group should maintain the ratio *Free cash flow divided by Debt Service* not to be less than 1.3. The value of the ratio is 0.91

From 01 January 2012 until 31 December 2012, the Group should maintain the ratio *Current assets to Current Liabilities* not to be less than 1.3. The value of the ratio is 1.01

From 01 January 2012 until 31 December 2012, the Group should maintain the ratio *Total Financial Debt to Equity* not to be higher than 1.4. The value of the ratio is 1.02

From 01 January 2012 until 31 December 2012, the Group should maintain the ratio *Total Financial Debt to EBITDA* not to be higher than 3. The value of the ratio is 3.18

As at 31 December 2012 Svilosa AD (on consolidated base) and Svilocell EAD did not cover the financial ratios. Svilosa and Svilocell undertook steps to receive waivers from EBRD and NIB for maintaining the financial ratios as at 31 December 2012. On 14 March 2013 and 19 March 2013 respectively Svilosa and Svilocel received waivers from EBRD and NIB in relation to the financial ratios as at 31 December 2012.

Notes to the consolidated financial statements

27. Interest-bearing loans and borrowings (continued)

(b) *Overdraft contracts and non-revolving credits for working capital*

The Group uses an overdraft for working capital purposes with a limit of BGN 4,900 thousand, granted by Municipal Bank AD. As at 31 December 2012 and 2011, the amounts of BGN 4,690 thousand and BGN 2,693 thousand were utilized, respectively. In November 2011, the term of the overdraft was prolonged to 21 January 2013, as the authorized limit gradually decreases during the last three months as follows:

BGN 4,900,000 - to 21 November 2012;

BGN 4,165,000 - from 22 November 2012 to 21 December 2012;

BGN 3,430,000 - from 22 December 2012 to 21 January 2013.

On 7 March 2013 an annex to the contract was signed. Under the terms of the annex the limit of the facility was increased to BGN 8.9 million and the repayment date was contracted to 20 May 2014.
The overdraft is secured with assets of Svilosa AD.

The Group uses overdraft for working capital financing with a limit of EUR 3,000 thousand, granted by Postbank AD. As at 31 December 2012, the amount of EUR 2,997 thousand (BGN 5,862 thousand) was utilized and an interest of EUR 5 thousand (BGN 10 thousand) was accrued. The overdraft is technically prolonged to 30 April 2013. As at the date of the financial statements there is decision of the credit board of the bank for prolonging the overdraft facility to 29 September 2013, but the parties are in process of negotiating the supporting provisions of the overdraft facility.

The overdraft is secured with assets of Svilosa ZIK AD.

(c) *Loan contract with ARUS Holding*

In November 2009 the Group received a long-term loan from ARUS Holding, amounted to EUR 250 thousand and contracted interest rate of 8%. The loan would be repaid after repayment of the loans to European Bank for Restoration and Development and Nordic Investment Bank.

In January 2010, the Group signed an agreement with A.R.U.S. Holding, in which it was agreed the trade payable amounting to BGN 2,984 thousand to be repaid after repayment of the liabilities of the Company to EBRD and NIB in respect of loans received. For the amount due, the Company was obliged to pay interest of 8% to the date of the repayment of the liability. As at 31 December 2011, the liability was reported as a long-term trade liability. In 2012, the trade liability was reclassified to long-term loans.

In July 2012 the Group received a long-term loan from ARUS Holding, amounted to EUR 2,000 thousand (BGN 3,912 thousand) and contracted interest rate of 8%. The maturity of the loan is 31 December 2016.

In 2008 the Group received short-term loan from ARUS Holding, amounting to BGN 400 thousand. With additional Agreement from 2009, the loan is converted in euro with an interest rate Euribor + 2.75%. With additional Agreement from 2011, the period of the loan is prolonged to 2016.

(d) *Other loans*

On 10 November 2009 the Group has signed an agreement with an Italian entity Fizer SRL (client of the Group) for borrowing a loan, with an 8% annual interest. In February 2010, the amount of EUR 1,075 thousand was received and with an Annex the amount of the loan was contracted to the amount received. As at 31 December 2012 the loan was fully repaid.

Notes to the consolidated financial statements

27. Interest-bearing loans and borrowings (continued)

(d) ***Other loans (continued)***

The Group has the following finance lease contracts concluded:
Contract No BG-2008-M-00048 signed on 21 August 2008 with Immorent Bulgaria EOOD for the purchase of one mobile crane, brand TEREX FUCHS. Acquisition cost - EUR 242,012; interest rate based on 6-month EURIBOR+2.5% p.a.; repayment in 60 months at estimated monthly installments of EUR 4,021 As at 31 December 2012, the outstanding principal balance with the residual amount is EUR 50 thousand (2011: EUR 89 thousand).

Terms and debt repayment schedule
In thousand of BGN

	Currency	Nominal interest rate	Maturity	31 December 2012 Face value	31 December 2012 Carrying amount	31 December 2011 Face value	31 December 2011 Carrying amount
Обезпечени заеми							
Secured bank loan EBRD and NIB	EUR	3 month EURIBOR + 3.5%	2015	39,092	39,092	52,535	52,535
Secured bank overdraft from Municipal Bank AD	BGN	BIR + 3.2%	2013	4,690	4,690	2,693	2,693
Secured bank overdraft from Postbank AD	EUR	3 month EURIBOR + 4.75%	2013	5,872	5,872	5,867	5,867
Loan from Fizer	EUR	8%	2012	-	-	2,429	2,429
Immorent Bulgaria EOOD –finance leasing	EUR	6 month EURIBOR+ 2.5%	2013	96	96	176	176
Unsecured loans							
Loan from ARUS Holding	EUR	8%	2016	3,756	3,756	499	499
Loan from ARUS Holding	EUR	8%	2016	3,912	3,912	-	-
Loan from ARUS Holding	EUR	Basic interest rate + 2.75%	2016	543	543	509	509
				57,961	57,961	64,708	64,708

Notes to the consolidated financial statements

27. Interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are paid as it follows:

In thousands of BGN	Minimum lease payments 2012	Interest 2012	Principle 2012	Minimum lease payments 2011	Interest 2011	Principle 2011
Less than one year	97	1	96	128	6	122
Between one and five years	-	-	-	56	2	54
	97	1	96	184	8	176

28. Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of BGN	31 December 2012	31 December 2011
Available-for-sale financial assets	30	30
Loans granted	230	248
Trade and other receivables	9,636	6,456
Cash and cash equivalents	1,439	3,885
	11,335	10,619

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

In thousands of BGN	31 December 2012	31 December 2011
Domestic	4,443	927
Euro-zone	3,655	4,177
Non euro-zone	1,538	1,352
	9,636	6,456

Credit risk

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

In thousands of BGN	31 December 2012	31 December 2011
Customers sales of finished goods	8,409	5,014
Customers rentals and other services	297	255
Customers other sales	930	1,187
	9,636	6,456

The main customers of finished goods, produced by the Group are plants for production of printing paper, high-quality cardboard and sanitary paper on the Balkans region and in European Union, or wholesalers from the European Union.

Notes to the consolidated financial statements

28. Financial instruments (continued)

Impairment losses on receivables

The aging of trade receivables at the reporting date was:

In thousands of BGN	2012 Gross amount	2012 Impairment	2011 Gross amount	2011 Impairment
Not past due	8,718		5,125	-
Past due 90 days	641		1,023	-
Past due 91-180 days	-		36	-
More than 180 days	429	152	860	588
	9,788	152	7,044	588

(Recognition)/Reversal of allowance for impairment in respect of trade and other receivables during the year was as follows:

In thousands of BGN	2012	2011
Impairment at 1 January	588	498
Written-off receivables	(446)	(419)
Impairment loss recognized in the year	13	509
Reversals	(3)	-
Impairment at 31 December	152	588

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2012

In thousands of BGN	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	6,514	(6,514)	(6,514)	-	-	-	-
Payables to related parties	474	(474)	(474)	-	-	-	-
Bank overdrafts	10,563	(10,563)	(4,690)	(5,873)	-	-	-
Secured interest loans	39,091	(42,202)	(4,711)	(4,582)	(8,946)	(23,963)	-
Unsecured interest loans	8,211	(10,722)	-	-	-	(10,722)	-
Finance leases	96	(97)	(83)	(14)	-	-	-
	64,949	(70,572)	(16,472)	(10,469)	(8,946)	(34,685)	-

Notes to the consolidated financial statements

28. Financial instruments (continued)

Liquidity risk

31 December 2011

In thousands of BGN

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	4,972	(4,972)	(4,972)	-	-	-	-
Payables to related parties	3,032	(3,987)	(48)	-	-	(3,939)	-
Bank overdrafts	8,560	(8,560)	-	-	(5,867)	(2,693)	-
Secured interest loans	52,535	(52,535)	(52,535)	-	-	-	-
Unsecured interest loans	3,437	(3,766)	-	(2,518)	(40)	(1,209)	-
Finance leases	176	(184)	-	(128)	(56)	-	-
	72,712	(74,004)	(57,555)	(2,646)	(5,963)	(7,841)	-

Currency risk

Exposure to currency risk

Group's exposure to currency risk is not significant because 34 % of the sales for 2012 are realized in USD (2011: 38%); and 52 % of the sales for 2012 are realized in EUR (2011: 55%).

The import of goods in USD in 2012 is amounting to USD 188 thousand (2011: 318 thousand).

Loans denominated in foreign currency are in EUR.

Sensitivity analysis

A strengthening/weakening of the BGN or EUR against other currencies would not have an impact on the Group's financial statements due to the low exposure in USD as at 31 December 2012 and 2011. Exposition of the Group to currency risk was:

	BGN	EUR	USD	BGN	EUR	USD
	31 December 2012			31 December 2011		
Trade and other receivables	4,987	2,294	109	1,813	2,645	192
Loans granted	230	-	-	248	-	-
Cash and cash equivalents	125	673	3	137	1,713	263
Available-for-sale financial assets	30	-	-	30	-	-
Trade and other payables	(4,802)	(633)	-	(7,489)	(543)	(141)
Interest bearing loans and borrowings	(4,690)	(29,209)	-	(2,693)	(33,345)	-
Net exposure	(4,120)	(26,875)	112	(7,954)	(29,530)	314

The following exchange rates applied during the year:

	Average rate		Reporting date rate	
	2012	2011	2012	2011
USD 1	1,52314	1,40595	1,48360	1,51158

Notes to the consolidated financial statements

28. Financial instruments (continued)

Currency risk (continued)

Sensitivity analysis

A strengthening/weakening of the BGN, as indicated below, against the USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011

Effect in thousand of BGN	**Equity**	**Profit or loss**
31 December 2012		
USD (10 percent strengthening)	-	17
31 December 2011		
USD (10 percent strengthening)	-	46

A weakening of the BGN against USD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of BGN	**31 December 2012**	**31 December 2011**
Fixed rate instruments		
Financial assets	1,669	1,985
Financial liabilities	(7,668)	(8,795)
	(5,999)	(6,810)
Variable rate instruments		
Financial assets	-	1,900
Financial liabilities	(50,293)	(55,913)
	(50,293)	(54,013)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2011.

Notes to the consolidated financial statements

28. Financial instruments (continued)

Effect of a change of 1% of the interest rate on instruments with variable interest:

In thousands of BGN	Effect in profit or loss		Effect in equity	
	1% increase	1% decrease	1% increase	1% decrease
31 December 2012				
Variable rate instruments	(502)	502	-	-
Cash flow sensitivity (net)	(502)	502	-	-
31 December 2011				
Variable rate instruments	(540)	540	-	-
Cash flow sensitivity (net)	(540)	540	-	-

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

In thousands of BGN	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	9,636	9,636	6,456	6,456
Investments	30	30	30	30
Loans granted	230	230	248	248
Cash and cash equivalents	1,446	1,446	3,885	3,885
Interest bearing loans and borrowings	(57,961)	(57,961)	(64,708)	(64,708)
Trade and other payables	(6,988)	(6,988)	(8,049)	(8,049)
	(53,607)	(53,607)	(62,138)	(62,138)

There are no financial instrument carried at fair value.

Notes to the consolidated financial statements

29. Employee benefits

According to the requirements of the Labour Code and the Collective Labour Agreement (CLA) in case of termination of the labour relationships when the employee has obtained the right for retirement, based on length of employment service and age, the Group is obliged to pay him/her a compensation equal to the amount of two gross salaries. In case that the employee has worked in a company from the Group for the last ten years the amount of the compensation is equal to the six-times amount of his/her gross salary.

The provision for retirement benefits as at 31 December 2012 amounts to BGN 190 thousand. The estimated amount of the liability as at 31 December 2012 are based on a report from an actuary, which was prepared based on the following assumptions:

- Discount rate: 4%;
- Expected salary increase: 0% in the first three years, 1% за for the next years;
- Retirement date: in accordance with the agreed time served and age.

Present value of the liability
In thousands of BGN

	31 December 2012	31 December 2011
Net present value of the liability	342	227
Unrecognized actuary gain (loss)	(152)	(32)
Liability recognized in the statement of financial positions	190	195

Movement in the value of the net defined benefit obligations recognised in the statement of financial positions
In thousands of BGN

	31 December 2012	31 December 2011
Present value of the obligation as at 1 January	195	179
Retirement benefits paid	(38)	(30)
Expenses recognized in profit and loss (see below)	33	46
Present value of the obligation as at 31 December	190	195

Expenses recognized in profit and loss
In thousands of BGN

	31 December 2012	31 December 2011
Rights acquired during the year	23	27
Interest charged on the liabilities	9	16
Actuarial gain/loss for the period	1	3
	33	46

Retirement benefits
In thousands of BGN

	31 December 2012	31 December 2011
Non-current liabilities	139	144
Current liabilities	51	51
	190	195

Notes to the consolidated financial statements

30. Trade and other payables

In thousands of BGN

	2012	2011
Payables to suppliers	6,254	4,715
Payables to personnel	350	354
Payables to the state budget	668	768
Social securities liabilites	116	106
Advances received	56	91
Obligation for providing quotas for carbon emission to the state	55	100
Other payables	260	254
	7,759	6,388

The payables to personnel for 2012 include BGN 16 thousand accrual for unused paid leaves (2011: BGN 34 thousand). The social security payable for 2012 include BGN 3 thousand accrual for social security payables over unused paid leaves (2011 : BGN 6 thousand).

31. Related parties

Identity of related parties

The Group's related parties are:

- Krassimir Dachev – a majority shareholder of A.R.U.S Holding AD (Svishtov)
- A.R.U.S Holding AD (Svishtov) – a majority shareholder of Svilosa AD
- GTM A. Balevski Holding – a company under common control
- Alukom AD – a company under common control
- Osym AD – a company under common control
- Centromet AD – a company under common control
- Arma AD – a company under common control
- ARMA GTM – a company under common control
- Leyar Service – a company under common control
- GTM Energy EOOD – a company under common control
- Toplofikacia Loznica EAD – a company under common control
- Mashini and Engineering EOOD– a company under common control
- GTM OOD – a company under common control
- The key management of the Company

The closing balances of the related party receivables and payables as at the end of the year are as follows:

Receivables

In thousand of BGN

	2012	2011
Краткосрочни вземания		
ARMA GTM EAD	26	27
Osam AD	13	33
Centromet AD	-	2
A.R.U.S. Holding	7	-
GTM OOD	-	2
	46	64

Notes to the consolidated financial statements

31. Related parties (continued)

Payables *In thousand of BGN*	**2012**	**2011**
Non-current trade payables		
A.R.U.S. Holding	-	2,984

In January 2010, the Group signed an agreement with A.R.U.S. Holding, in which it is agreed the trade payable to be repaid after repayment of the liabilities of the Group to EBRD and NIB in respect of loans granted. For the amount due, the Group is obliged to pay interest of 8% to the moment of the repayment of the liability. In 2012 the liability was presented in the amount of the long-term loans (see note 27).

Current trade payables		
A.R.U.S. Holding	-	45
GTM A. Balevski Holding	417	3
GTM Energy EOOD	57	-
	474	48

Interest-bearing loans and borrowings		
A.R.U.S. Holding	8,211	1,008

The remuneration of the members of the Board of Directors and the Executive Director for the year ended as at 31 December 2012 amounted to BGN 108 thousand (2011: BGN 111 thousand)

Sales *In thousand of BGN*	**2012**	**2011**
GTM Energy EOOD	-	2
GTM OOD	-	1
Centromet AD	-	21
Alukom AD	1	13
Osam AD	13	25
Centromet	2	-
	16	62

Purchases *In thousand of BGN*	**2012**	**2011**
GTM A. Balevski Holding	7,735	8,930
GTM Energy EOOD	3,996	6,413
GTM OOD	11	5
Alukom AD	-	10
	11,742	15,358

Accrued interest on interest-bearing loans and borrowings and trade payables		
A.R.U.S. Holding	454	312

Notes to the consolidated financial statements

32. Group entities

Control over the Group

The majority shareholder of Svilosa AD is A.R.U.S Holding AD (Svishtov), which represents 81% of the share capital of Svilosa AD.

Significant subsidiaries

	Headquarter	Share 2012	2011
Svilocell EAD	Bulgaria	100%	100%
Ekosvill EOOD	Bulgaria	-	100%
Bioresource Svishtov EOOD	Bulgaria	100%	100%

In 2012 the Group sold its subsidiary Ekoscill EOOD. The net assets of the sold subsidiary are negative amount - BGN 307 thousand and the financial result recognized from the sale is profit BGN 307 thousand presented as Other income.

33. Capital commitmemts

On 24 October 2007 Svilosa AD was granted an integrated permit in accordance with the requirements of Environmental Protection Act. Pursuant to the conditions for issuance of the integrated permit, the Group initiated an investment program for overhaul and maintenance of the existing equipment as well as constructing new one for the purpose of preventing environmental pollution above the permissible quotas.

As at the date of issuance of the integrated permit, the investment program approved by the management of the Group amounted to BGN 15,620 thousand. Part of the investments are performed by Svilocell EAD, being 100% subsidiary of Svilosa AD and operating the facilities for production of pulp. As at 31 December 2012 the Company completed the imposed investment program.

Notes to the consolidated financial statements

34. Agreement for sale of reduced carbon emissions

Svilosa AD

In September 2003 the Company entered into an agreement with the World Bank (as a trustee of the Prototype Carbon Fund), for sale and delivery of greenhouse gas emission reductions (ERs). The terms of the agreement are consistent with the United Nations Framework Convention on Climate Change, the Joint Implementation mechanism of the Kyoto protocol and any decisions, guidelines, modalities and procedures adopted under the foregoing. Under the provisions of the agreement, the trustee agreed to purchase the first 500,000 metric tonnes CO_2 equivalent of ERs, generated by the "Biomass Project" and received the option to purchase further quantities of ERs in total not exceeding 1,000,000 metric tonnes CO_2 equivalent. This project included installation and operation of a biomass-fired boiler fueled by wood wastes produced by the pulp production in Svilosa AD. In 2004 the agreement was amended and the trustee agreed to buy the first 450,000 metric tonnes CO_2 equivalent of ERs for the total amount of USD 1,575 thousand.

In 2012 verification reports for 2011 and for the period until 31 August 2012 were prepared, and the Company recognized revenue from the sale of reduced carbon emissions at the amount of BGN 337 thousand for 2011 and BGN 579 thousand for the period until 31 August 2012 respectively, selling expenses amounting to BGN 84 thousand, the net profit from the sale was BGN 832 thousand. In December 2012 and January 2013 the Company received the agreed amounts from the sale of reduced carbon emissions.

As at 31 Decemebr 2012 the Company generated 438,919 metric tonnes CO_2 equivalent of ERs from the total agreed quantity of 450,000 metric tones.

Svilocell EAD

In July 2006, the Company has signed an Agreement for sale of reduced carbon emissions with European Bank for Reconstruction and Development in favor of Kingdom of the Netherlands. The Agreement covered the period 2007 – 2012 and included a provision for advance payment. The Company received the advance payment, in accordance with the terms of the contract, amounting to BGN 4,084 thousand (EUR 2,088 thousand).

During 2011, the Company sold to EBRD in favor of Kingdom of the Netherlands, reduced carbon emissions for the amount of BGN 3,776 thousand (EUR 1,931 thousand). A part of the amount was offset against the advance received. The outstanding part of the advance as at 31 December 2011 is BGN 1,375 thousand (EUR 703 thousand).

In 2012 the Company sold to EBRD reduced carbon emissions for the amount of BGN 4,475 thousand (EUR 2,288 thousand). As at 31 October 2012 the Company realized 675,000 tones reduced carbon emissions for the period 2007-2012 and fulfilled its obligation under the Agreement for sale of reduced carbon emissions from 2006 and the advance was completely utilized.

35. Quotas for trading of carbon emissions

In 2012 the Company sold 60,000 tonnes (2011: 142,940 tonnes) quotas for trading of carbon emissions which were provided to the Company in accordance with the national allocation plan for the period 2008-2012. In 2012 the Company realized profit from the sale amounting to BGN 956 thousand (2011: BGN 3,612 thousand).

In 2011 the Company purchased 32,940 tonnes quotas for trading of reduced carbon emissions for the amount of BGN 351 thousand. In 2012 the Company met its obligation to the government amounting to 12,940 tonnes by reduced carbon emissions.

Notes to the consolidated financial statements

36. Contingencies

Svilosa AD

As at 31 December 2012 a claim was initiated against the Company by a supplier for the amount of BGN 390 thousand. In the period 2007 - 2012 the respective District Courts held hearings for gathering of evidence. Judicial accounting expert's examination was presented, identifying that Svilosa AD had no obligations to the claimant. The management of Svilosa AD has taken measures for protection of the Company and based on the opinion of the Company's lawyers, it is convinced that the claim is groundless and the Company is not exposed to significant risk of negative decision.

Svilocell EAD

n February, 2009 Svilocell EAD undertook actions against an entity, which was a supplier of main production equipment, in relation with a claim for poor quality delivery of contracted work. In that respect Svilocell EAD submitted for utilization of a bank guarantee, issued at its favor from the supplier amounting to BGN 1,226 thousand. The supplier blocked the bank guarantee and as a result the Company was not able to utilize it. At the same time Svilocell EAD arranged a letter of credit in favor of the supplier, which was disclosed as blocked cash in the statement of financial positions (see note 24). In 2012 the Arbitration Court took a partial decision and proceeded the litigation to the second phase for determination of the grounds and the extent of damages. With a decision of the Arbitration Court an independent expert was assigned. After the expert provides his report, in 2013 it will be decided whether additional hearings will be held or the Arbitration Court will pronounce its final decision.

37. Subsequent events

- On 7 March 2013 an annex to the contract with Municipality Bank was signed. Under the terms of the annex the limit of the facility was increased to BGN 8.9 million and the repayment date was contracted to 20 May 2014.

- On 12 March 2013 the period of the overdraft loan facility with Postbank is technically prolonged to 30 April 2013. As at the date of the financial statements there is a decision of the credit board of the bank for extending the maturity of the overdraft facility to 29 September 2013, but the parties are in process of negotiating the supporting provisions of the overdraft facility.

- On 14 March 2013 and 19 March 2013 respectively Svilosa and Svilocell received waivers from EBRD and NIB in relation to the financial ratios as at 31 December 2012 under the loan agreements with EBRD and NIB.

- In January 2013, the Group participated in establishment of a new entity Severna Darvodobivna Company AD. The Group owns 65.9% of the registered capital of the entity. The entity is registered in the Commercial Register at the Bulgarian Registry Agency on 29 January 2013.