



**Petrol AD**

*(incorporated in the Republic of Bulgaria with limited liability)*

**€100,000,000**

**8.375 per cent. Guaranteed Notes due 2017**

**Guaranteed by**

**Naftex Petrol EOOD**

*(incorporated in the Republic of Bulgaria with limited liability)*

This Prospectus relates to the €100,000,000 8.375 per cent. Guaranteed Notes due 2017 issued by Petrol AD (the "**Issuer**", "**Company**" or "**Petrol**") on 24 October 2006 (the "**Notes**") of which €87,038,000 are outstanding as of 12 March 2012. At a meeting of the holders of the Notes on 5 October 2011, the maturity date of the Notes was extended to 26 January 2012. At an adjourned meeting of the holders of the Notes on 20 December 2011 (the "**Adjourned Meeting**"), the maturity date of the Notes was further extended to 26 January 2017. References in this prospectus to the "**Notes**" are to the €100,000,000 8.375 per cent. Guaranteed Notes due 2017. Naftex Petrol EOOD (the "**Guarantor**" or "**Naftex Petrol**") has unconditionally and irrevocably guaranteed (the "**Guarantee**") the due and punctual payment of all amounts becoming due and payable in respect of the Notes pursuant to, and in accordance with, a trust deed (the "**Principal Trust Deed**") dated 26 October 2006 (the "**Issue Date**") as modified by a supplemental trust deed dated 6 October 2011 (the "**First Supplemental Trust Deed**") and as further modified by a second supplemental trust deed dated 6 January 2012 (the "**Second Supplemental Trust Deed**" and, together with the First Supplemental Trust Deed and the Principal Trust Deed, the "**Trust Deed**") between the Issuer, the Guarantor and The Bank of New York Mellon (the "**Trustee**"). The Notes are secured by a first-priority security interest on certain intercompany loans, including the loan of Notes proceeds from the Issuer to the Guarantor.

Interest on the Notes is payable at a rate of 8.375 per cent. (i) annually in arrear on 26 October in each year up to (but excluding) 26 October 2010 and (ii) on 26 January 2012 in respect of the period from (and including) 26 October 2010 to (but excluding) 26 January 2012 and (iii) from (and including) 26 January 2012 annually in arrear on 26 January in each year beginning on 26 January 2013. Payments on the Notes will be made without deduction for or on account of taxes of the Republic of Bulgaria ("**Bulgaria**") to the extent described under "**Terms and Conditions of the Notes – Taxation**".

The Notes mature on 26 January 2017 at their principal amount together with accrued interest. The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Bulgaria. In addition, the Issuer may redeem the Notes, in whole or in part, at any time or from time to time prior to 26 January 2017, at their principal amount together with accrued interest. See "**Terms and Conditions of the Notes – Redemption and Purchase**". If the Issuer experiences a change of control, the Noteholders will have the right to require the Issuer to purchase all or part of the Notes at 101 per cent. of their principal amount, plus accrued and unpaid interest.

This Prospectus has been approved by the United Kingdom Financial Services Authority (the "**FSA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications will be made for the Notes to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments. This Prospectus is being produced in connection with the extension of the maturity date of the Notes to 26 January 2017. References in this Prospectus to the Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange and have been admitted to the Official List.

**SEE "RISK FACTORS" ON PAGES 8 TO 15 OF THIS PROSPECTUS FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH THE NOTES.**

The Notes are issued in registered form in denominations of €100,000. The Notes are represented by a single global note certificate (the "**Global Note Certificate**") in registered form, which is deposited with a common depositary (the "**Common Depositary**") for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") for the accounts of their respective accountholders. So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")).

Bulgaria's long term foreign currency ratings for sovereign bonds are Baa2 (stable) by Moody's Investors Service, Inc. ("**Moody's**"), BBB (stable) by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and BBB- (stable) by Fitch Ratings Limited ("**Fitch**").

S&P and Fitch are established in the European Economic Area (the "**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

Moody's is not established in the EEA and is not certified under the CRA Regulation and the ratings it has given to Bulgaria are not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.

*This Prospectus comprises a prospectus for the purposes of Article 5(3) of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole (the "Group"), Naftex Petrol and the Notes which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor. The Issuer and the Guarantor accept responsibility for the information contained in this document. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Guarantor, to subscribe or purchase any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Guarantor to inform themselves about and to observe any such restrictions.*

*For a description of further restrictions on offers and sales of the Notes and the distribution of this Prospectus see "Offer and Distribution Restrictions" below.*

*No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Guarantor. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date.*

*Investors should not construe anything in this Prospectus as legal, business or tax advice. Each investor should consult its own advisers as needed to make its investment decision and determine whether it is legally able to purchase the Notes under applicable laws or regulations.*

*No representation or warranty, express or implied, is made by the Trustee as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Trustee does not assume any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the Guarantor and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investments.*

*Neither the Issuer nor the Guarantor or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.*

## **FORWARD-LOOKING STATEMENTS**

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will", or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include, but are not limited to, the following: statements regarding the Issuer's intentions, beliefs or current expectations concerning, amongst other things, the strategies and the industries in which the Group operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations, financial condition and liquidity, and the development of the countries and the industries in which the Group operates may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. In addition, even if the

development of the industries in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause actual results to differ materially from the Issuer's expectations are contained in cautionary statements in this document and include, among others, the following:

- competition in the industries in which the Group participates;
- changes in demand for fuel in Bulgaria;
- the impact of certain laws, regulations and standards (and interpretations or applications thereof) especially in the areas of fuel stock reserve requirements, the environment, tax and fiscal regulation and health and safety; and
- the Group's ability to maintain access to fuel supplies.

These and other factors are discussed in more detail under "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". Many of these factors are beyond the Issuer's control. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected. The Issuer and the Guarantor do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set out in this document.

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## INFORMATION INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Prospectus:

1. the unaudited consolidated financial statements of the Issuer for the nine months ended 30 September 2011 (the "**Issuer's Interim Financial Statements**");
2. the consolidated Annual Report of the Issuer, including the audited consolidated financial statements together with the auditor's report, for the year ended 31 December 2010 (the "**Issuer's Annual Report 2010**");
3. the consolidated Annual Report of the Issuer, including the audited consolidated financial Statements together with the auditor's report, for the year ended 31 December 2009 (the "**Issuer's Annual Report 2009**");
4. the unaudited non-consolidated financial statements of the Guarantor for the nine months ended 30 September 2011 (the "**Guarantor's Interim Financial Statements**");
5. the Annual Report of the Guarantor, including the audited non-consolidated financial statements together with the auditor's report, for the year ended 31 December 2010 (the "**Guarantor's Annual Report 2010**"); and
6. the Annual Report of the Guarantor, including the audited non-consolidated financial statements together with the auditor's report, for the year ended 31 December 2009 (the "**Guarantor's Annual Report 2009**"),

**provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Principal Paying and Transfer Agent unless such documents have been modified or superseded.

For ease of reference, the table below sets out the page references for the financial statements, the notes to the financial statements and the auditors' reports for the years ended 31 December 2010 and 31 December 2009 for each of the Issuer and the Guarantor, and the unaudited interim financial statements and the notes to the financial statements for the nine months ended 30 September 2011 for each of the Issuer and the Guarantor, as set out in the respective annual reports or interim financial statements.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Information

#### *The Issuer*

The financial information of the Issuer and its consolidated subsidiaries set forth herein has, unless otherwise indicated, been derived from its audited consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity as of and for the years ended 31 December 2010 and 2009 (the "**Issuer's Audited Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the unaudited financial statements and the notes to the financial statements for the nine months ended 30 September 2011. The Issuer's Audited Financial Statements have been audited by the Issuer's independent auditors, Deloitte Audit Ltd. ("**Deloitte**"), located at 103, Al. Stambolijski Blvd, 1000 Sofia, Republic of Bulgaria. The Issuer's audit reports for 2010 and 2009 were qualified. For more information, see the Issuer's Annual Report 2010 and the Issuer's Annual Report 2009, incorporated by reference herein, and also "*Risk Factors – Risks relating to the Group's business – The Group's audited consolidated financial statements are qualified and may not fairly present the Group's financial position*".

#### *The Guarantor*

The unconsolidated financial information of the Guarantor set forth herein has, unless otherwise indicated, been derived from its audited balance sheet and statements of income, cash flows and changes in shareholders' equity as of and for the years ended 31 December 2010 and 2009 (the "**Guarantor's Audited Financial Statements**"), prepared in accordance with IFRS and the unaudited financial statements for the nine months ended 30 September 2011. The Guarantor's Audited Financial Statements have been audited by the Guarantor's independent auditors, Deloitte, located at 103, Al. Stambolijski Blvd, 1000 Sofia, Republic of Bulgaria. The Guarantor's audit reports for 2010 and 2009 were qualified. For more information, see the Guarantor's Annual Report 2010 and the Guarantor's Annual Report 2009, incorporated by reference herein.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some Bulgarian Lev amounts into euro at a conversion rate of Lev 1.95583 to €1.

#### *Currency*

In this Prospectus, the following currency terms are used:

- "**U.S. Dollar**" or "**U.S.\$**" means the lawful currency of the United States of America;
- "**EUR**", "**euro**" or "**€**" means the lawful currency of the member states of the European Union ("**EU**") that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended; and
- "**BGN**", "**Lev**" and "**Bulgarian Lev**" means the lawful currency of the Republic of Bulgaria.

#### *Rounding*

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables and text may not be an exact arithmetic aggregation of the figures that preceded them.



## OVERVIEW

*The following overview highlights selected information from this Prospectus, but investors should read this entire Prospectus before making an investment decision. Investors should also carefully consider the information set forth under "Risk Factors".*

### The Group

#### Business Overview

The Group is one of the major fuel distributors in the oil market in Bulgaria. At the end of 2010 the Petrol Group comprised the Issuer, ten subsidiaries and two special purpose entities (see "*Business - Corporate Structure* "). The main activities of the Group include wholesale and retail trading and storage of fuels and petroleum products. Besides its core activities, the Group also performs transportation of fuels, repair and maintenance of fuel stations and fuel storage facilities. The Group owns at present a well developed network for distribution of petroleum products in both wholesale and retail markets, and it is among the biggest owners of available capacity for storage of fuels and petroleum products in Bulgaria.

In 2010, the trend from the last few years of intensifying competition in the fuel sector continued. The main reason for this was the reduction in fuel consumption, which is usually consistent with the variation of GDP, and is a direct consequence of the economic slowdown. As a result of this, there was a reported double-digit decrease in domestic consumption in 2010. The drop was mainly due to the decrease in sales to corporate clients, which were affected by the worsening economic activity and the higher criteria of the oil companies in signing contracts for commodity credit. Shrinking consumption led to decline in sales of the leading players and small independent players, some of which were forced to drop out of business or to sign franchise/dealership arrangements with the major companies in the sector. This led to additional consolidation of the market and shrinkage of the market share of the small independent players to 19 per cent. of the retail market.

As of 31 December 2010 the Group's retail trade network includes 371 stations spread throughout the territory of the country. The Group's wholesale sales are made through a network of own storage facilities. As of 31 December 2010 the Group owns 80 fuel storage facilities situated on a total area of 3,215 thousand m<sup>2</sup> with total tank capacity of 1,197 thousand m<sup>3</sup>.

For the year ended 31 December 2010, the Group had sales of BGN 1,225.7 million (EUR 626.7 million) compared with BGN 1,024.0 million (EUR 523.6 million) for 2009. The Group's gross profit for the year ended 31 December 2010 was BGN 115.3 million (EUR 59.0 million) compared with BGN 98.4 million (EUR 50.3 million) for 2009. As at 31 December 2010, the Group's total assets were BGN 558.9 million (EUR 285.8 million), total equity and reserves were BGN 38.9 million (EUR 19.9 million), net debt (debt minus cash and cash equivalents) was BGN 276.3 million (EUR 141.3 million) and earnings before interest, tax, depreciation and amortisation ("**EBITDA**") were BGN 42.9 million (EUR 21.9 million).

The address of the Issuer is 43 Cherni Vrah Blvd, Sofia 1407, Republic of Bulgaria and its telephone number is +359 24960307. The address of the Guarantor is 22A Bratya Miladinovi Str., Varna 9000, Bulgaria and its telephone number is +359 52669612.

#### Recent Developments

After the privatisation procedure of the Issuer in 1999, a vast investment program was started, as a result of which a significant number of retail stations were reconstructed and modernised. During the last two years, 14 trade sites were modernised. The appearance of all sites was changed and in 8 sites the tanks were replaced with new ones. Systems for collection of vapour emitted during unloading of fuels and their return in the tanker trucks in 67 of the retail trade sites were renewed. As of 31 December 2010, 184 of the sites were reconstructed into modern European style. All kinds of unleaded gasoline and Euro diesel are sold in all trade sites, LPG is offered in 149 of the petrol stations. During the last year modules for sale of CNG have been built in three petrol stations. The sites also offer the full range of Bulgarian and imported motor and transmission lubricants, brake and antifreeze fluids, automobile cosmetics, spare parts and accessories. In addition, the newly built and reconstructed sites have fast-food places and some provide internet access to customers. Most of the stores at the sites offer more than 4,000 items of leading Bulgarian and world producers of food, personal cosmetics, gifts, accessories, newspapers, magazines and others. In many sites additional facilities were provided such as car washes, inspection/service pits, pits for dismounting, mounting and balance of tyres and other auto services.

In the last few years, the Group continued to invest in technical renovation and increasing its commercial capacities. The major part of the capital expenditure was used in further developing its fuel storage activity. In order to implement its investment programme and to develop its storage activity, in 2010 and 2011 the Group continued modernisation of FSF Plovdiv. This is equipped with internal floating roofs in compliance with the Ordinance No 16 on the Control of Volatile Organic Compound Emissions Resulting from the Storage, Loading and Unloading, and Transportation of Gasoline, automated measuring systems, pump stations and industrial railway branch lines. Part of the fuel storage facility will be divided into a separate licensed tax warehouse under the Excise Duties and Tax Warehouses Act ("**EDTWA**") intended for storage of fuels under the Mandatory Stocks of Crude Oil and Petroleum Products Act ("**MSCOPPA**"). In addition, in 2010 scheduled tanks repairs at FSF Kaspichan and FSF Pleven were carried out in fulfillment of Ordinance No 16. In compliance with the requirements of Ordinance No 3 for specific requirements and control by the customs authorities of the means of measurement of excise goods, in 2010 the Group fitted automated measurement and level measuring systems in tax warehouses in Ruse, Pleven, Burgas and Varna, which through an integrated information system provide data to the information system of the Customs Agency.

As a result from the modernisation and the planned upgrades of the fuel depots in Plovdiv, Kaspichan and Pleven in 2010 and early 2011, the Group has increased its total registered storage capacity in compliance with the MSCOPPA up to 314,000 m<sup>3</sup>.

### Strategy

The Group's main strategic objective is to maintain and to develop its leading position in the Bulgarian retail and wholesale fuel distribution market. To achieve this strategic goal, a long-term strategy has been adopted, which includes several key elements:

- Increasing the efficiency of existing assets;
- Optimising and expanding the retail distribution network;
- Expanding the product range;
- Strengthening and increasing the market presence;
- Developing the fuel storage business line.

### Overview

Notes:	€100,000,000 8.375 per cent. Guaranteed Notes due 2017
Issuer:	Petrol AD
Guarantor:	Naftex Petrol EOOD
Maturity Date:	26 January 2017
Trustee:	The Bank of New York Mellon
Principal Paying and Transfer Agent:	The Bank of New York Mellon
Risk Factors:	An investment in the Notes involves a high degree of risk. See " <i>Risk Factors</i> ".
Interest:	The Notes will bear interest from 26 October 2006 at a rate of 8.375 per cent. per annum payable (i) annually in arrear on 26 October in each year up to (but excluding) 26 October 2010 and (ii) on 26 January 2012 in respect of the period from (and including) 26 October 2010 to (but excluding) 26 January 2012 and (iii) from (and including) 26

	January 2012 annually in arrear on 26 January in each year beginning on 26 January 2013.
Guarantee:	The Guarantor has fully, unconditionally and irrevocably guaranteed pursuant to the Trust Deed (the " <b>Guarantee</b> ") the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes.
Security:	The Trustee, for the benefit of the Noteholders, has a first-ranking security interest over certain intercompany loans, including the loan of Notes proceeds from the Issuer to the Guarantor.
Ranking of the Notes and the Guarantee:	The Notes and the Guarantee constitute senior obligations of the Issuer and the Guarantor, respectively, and rank equal in right of payment with all existing and future senior unsubordinated indebtedness of the Issuer and the Guarantor, respectively, and senior in right of payment to any obligations of the Issuer and the Guarantor, respectively, expressly subordinated to the Notes and the Guarantee respectively. The Notes shall at all times rank <i>pari passu</i> and without preference among themselves.
Withholding Tax; Gross-up:	All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Bulgaria or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or the Guarantor, as the case may be, subject to certain exceptions provided for in the Terms and Conditions of the Notes, will pay such additional amounts to cover the amounts so withheld or deducted.
Redemption for Taxation Reasons:	The Issuer may redeem the Notes in whole, but not in part, at 100 per cent. of their principal amount, plus accrued and unpaid interest, in the event of specified developments affecting taxation. See " <i>Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons</i> ".
Change of Control:	If the Issuer experiences certain kinds of change of control, the Noteholders will have the right to require the Issuer to repurchase all or part of the Notes at 101 per cent. of their principal amount, plus accrued and unpaid interest. See " <i>Terms and Conditions of the Notes– Redemption and Purchase – Redemption at the Option of the Holders Upon a Change of Control</i> ".
Redemption at the Option of the Issuer:	The Issuer may redeem the Notes, in whole or in part, at any time or from time to time prior to 26 January 2017, at their principal amount together with accrued interest. See " <i>Terms and Conditions of the Notes –</i>

*Redemption and Purchase".*

Ratings:	The Notes have not been rated.
Form and Denomination:	The Notes are in registered form in the denomination of €100,000 each. The Notes are represented by the Global Note Certificate which on the Issue Date will be deposited with, and registered in the name of, a nominee of the Common Depositary. <i>So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €100,000 and integral multiples of €1,000 in excess thereof.</i>
Listing and admission to trading:	The €100,000,000 8.375 per cent. Guaranteed Notes due 2011 have been admitted to listing on the Official List and to trading on the London Stock Exchange since their issuance on 26 October 2006. Applications will be made to the FSA and to the London Stock Exchange for the Notes to be admitted to listing on the Official List and to trading on the London Stock Exchange until the new maturity date of the Notes on 26 January 2017.
Governing Law:	The Notes, the Guarantee and the Trust Deed will be governed by English law.
Security Codes:	ISIN: XS0271812447  Common code: 027181244

## RISK FACTORS

*Investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer, the Guarantor or the Group, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Notes. In addition, each of the risks highlighted below could adversely affect the trading price of the Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.*

*Investors should note that the risks described below are not the only risks the Issuer, the Guarantor and the Group face. Each of the Issuer and the Guarantor has described only those risks relating to its operations that it considers to be material. There may be additional risks that they currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above.*

### **Risks Relating to the Group's business**

***The Group's audited consolidated financial statements are qualified and may not fairly present the Group's financial position.***

Deloitte has audited the Group's accounts up to 2010. The qualification in paragraph 6 of the auditor's report pertains to the amount of overdue trade and other receivables exceeding BGN 23 million (EUR 11.8 million) as of 31 December 2010. As stated by the auditor, despite the indications for impairment of the overdue receivables in the accounts, the Group has not performed an analysis and review of the recoverable amount of these receivables and therefore no allowance for impairment has been provided in the consolidated financial statements. In view of the substantial amount of the overdue receivables, the lack of an adequate estimate represents a potential risk for considerable impairment losses that could have a material impact on the Issuer's liquidity position. An impairment on this scale could affect the Issuer's ability to perform its obligations under the Notes. Pursuant to an internal estimation and analysis of the overdue trade and other receivables, the Group expects to make an allowance for impairment of the overdue receivables of BGN 2,500 thousand (EUR 1,280 thousand) in the financial statements for the year ended 31 December 2011.

In addition, paragraph 9 of the auditor's report contains an emphasis of matter with respect to the unsecured interest-bearing loans of BGN 124,743 thousand (EUR 63,780 thousand) granted by the Group to the controlling company and the overall level of receivables on loans granted to related parties, which as of 31 December 2010 represents 23 per cent. of the Group's assets and exceeds its equity. The auditor's opinion is that such exposure causes a significant concentration of credit and liquidity risk and, therefore, both the maintenance of the Group's liquidity and the impairment losses directly depend on the ability of the Group's counterparties to pay their obligations under the contractual terms and conditions in the next reporting periods. As of 30 September 2011, the amount of unsecured interest-bearing loans granted is BGN 103,951 thousand (EUR 53,149 thousand).

Recognition of an impairment loss for part of the overdue receivables in combination with the concentration of the credit and the liquidity risks could have a material adverse impact on the Issuer's ability to fulfil its obligations under the Notes.

***The Group may not have sufficient cash and may have limited access to financing for future capital requirements.***

Although historically the cash flow from the Issuer's, Guarantor's and other Group companies' operations and from borrowings has been sufficient to satisfy working capital and capital expenditure, in the future the Group may need to incur additional financing to fund its investment programme for further modernisation and reconstruction of its petrol station network and fuel storage facilities. The economic and financial crisis has reduced the ability and willingness of financial institutions to extend credit, particularly in Bulgaria, so if the Group is not able to renew its short-term debt as it matures, the Group will be forced to seek other sources of financing, to reduce or delay capital expenditure, to forego business opportunities or to dispose of assets or businesses. All these may have a material adverse effect on the Group's business, financial condition and results of operations.

### ***Volatility in crude oil and petroleum product prices***

The Group relies exclusively on imports from a number of international traders for the petroleum products distributed through its retail business, as the relationship with Lukoil, the only local producer in the country, was discontinued in 2008. Being a market leader in both the fuel wholesale and retail segments, Lukoil plays the role of a price setter and the Group is in the position of a price follower. In addition, the Group's financial condition and results of operations are influenced by the market prices for crude oil, feedstock and petroleum products, which are subject to international supply and demand fluctuations and various other factors beyond the Group's control. In recent years, these prices have fluctuated widely. Local and regional supply and demand and other economic, technical, commercial or political factors over which the Group has no control can also have an important impact on crude oil and petroleum prices. Worldwide supply conditions and the price levels of crude oil may also be significantly influenced by international groupings that control the production of a significant portion of the global supply of crude oil and by political developments, especially in the Middle East. The markets and prices for petroleum products may be influenced by the aggregate demand for such products (which fluctuates with changes in economic conditions, the seasons and weather patterns), by the price and availability of imports, by the price and availability of substitute fuels and the extent and nature of Bulgarian governmental legislation, regulation and taxation, with the latter being largely dependent on European Union ("EU") regulations. Fuel prices may be also influenced by speculative transactions on the international commodity markets. Volatility in the prices of crude and petroleum products can cause periodic fluctuations in the Group's results of operations, as is typical for companies operating in the oil industry. If the Group's results of operations deteriorate, this could adversely affect the ability of the Issuer and/or the Guarantor to meet their respective obligations under the Notes.

### ***Declining gross margins in the retail and wholesale markets for petroleum products***

Whilst gross margins in the retail market of petroleum products grew between 2008 and 2010, since the beginning of 2011 gross margins have tangibly declined to a level below the weighted average margin per litre in Western Europe as a result of increased competition and shrinking demand. Similarly, in 2011 gross margins decreased in the wholesale market for petroleum products due to pressure from competitors and deteriorating financial conditions and payment terms set by suppliers. In the event that the gross margins in the retail and/or wholesale market for petroleum products continued to decline, this may have a material adverse effect on the Group's results of operations. If the Group's results of operations deteriorate, this could adversely affect the ability of the Issuer and/or the Guarantor to meet their respective obligations under the Notes.

### ***The Group's operations are in emerging markets and consequently are exposed to risks associated with conditions in those markets.***

The Group operates exclusively in Bulgaria which, although being an EU member state, is still generally considered by international investors to be an emerging market. For the year ended 31 December 2011, all of the Group's sales were generated in Bulgaria. Investors in emerging markets such as Bulgaria should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. In addition, adverse political or economic developments in other Central and Eastern European or neighbouring countries, for instance Greece or Hungary, could have a significant negative impact on, among other things, Bulgaria's GDP, foreign trade and the economy in general. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, an investment in the Notes is appropriate. Generally, investment in emerging markets is only suitable for sophisticated and experienced investors who fully appreciate the significance of the respective risks involved. Investors should also note that emerging markets are subject to rapid change and the information contained in this document may quickly become outdated.

### ***Competition***

Despite the fact that the Issuer is operating the largest gas-oil distribution network in Bulgaria with approximately 370 petrol stations, it ranks joint third for retail market share, together with Shell Bulgaria (each with 15-16 per cent. of retail market share), and after the leaders Lukoil (30 per cent.) and OMV (21 per cent.). In the wholesale segment it ranks second for market share after Lukoil with an estimated market share of about 20 per cent.

In both the retail and wholesale markets, the Group competes with large multinational companies and private domestic companies, as well as smaller local operators. Many of the Group's international competitors belong to or are part of larger multinational corporations, which have substantially greater financial, human, technical and marketing resources than the Group. Factors which influence whether consumers choose to purchase petroleum products from the Group include price, quality of products and service provided and the comprehensive geographic coverage of the Group's network of retail stations, distribution and storage infrastructure and also its reputation and customer relationships. It is important to note that the new stricter fiscal regulations and permanent control imposed by the Government further restrict the relatively thin margins and have already resulted in the closing-down of departmental or factory-owned, temporary and independent fuel or gas stations. All this inevitably leads to a redistribution of market share in the retail sector and it is expected that in the short to medium term half of the currently 2,200 white pumpers will disappear, thus leaving about 10 per cent. of the retail market to be redistributed amongst the major players. Consequently, the Issuer foresees further consolidation of the Bulgarian market and although expectations are positive, there can be no assurance that the Group will manage to maintain its competitive position in the future.

***The Issuer is controlled by its principal shareholder and, if it takes certain actions, including those that are not in the best interest of investors, it may harm the value of any investment in the Notes.***

Petrol Holding AD and its shareholders directly and indirectly own approximately 55.50 per cent. of the Issuer's issued shares (which has fallen from 76 per cent. in 2006). Nevertheless, Petrol Holding AD has maintained the ability to exercise control over most matters requiring approval by shareholders, including the payment of dividends, election and removal of directors and significant corporate transactions. The control by Petrol Holding AD could delay, defer or prevent a change in control of the Issuer, impede a merger, consolidation, takeover or other business combination involving the Issuer, or discourage a potential purchaser from making a tender offer or otherwise attempting to obtain control of the Issuer even if that was in the Issuer's best interests.

***Being an importer of petroleum products, Naftex Petrol, which is 100 per cent. owned by the Issuer and is its only supplier of fuels, has to comply with the requirements of the MSCOPPA and further increase its own compulsory stock in 2012.***

Every EU Member State is required to build up and constantly maintain minimum stocks of petroleum products equal to at least 90 days of the average internal consumption during the previous calendar year. The stocks have to be maintained physically in licensed storage facilities and are controlled by the customs authorities. Naftex Petrol operates 12 such storage facilities. Currently Bulgaria has stocks equivalent to 80 days, with 30 days held by the State and 50 days held by importers. By 1 May 2012 importers must increase their stock to 60 days. This would imply the need for additional financing for Naftex Petrol of approximately BGN 25-30 million (EUR 13-15 million) for the acquisition of the additional new inventory. Petrol Group depends on sufficient and appropriate financing for fuel imports. The lack of adequate financing could limit the ability of Naftex Petrol to acquire sufficient stock to satisfy the MSCOPPA requirements and may result in declining turnovers and further decreases in gross margins.

***The Group is subject to numerous environmental and health and safety laws and regulations and is exposed to potential environmental liabilities.***

The Group's operations and properties are subject to numerous and complex environmental and health and safety laws and regulations (see "*Business – Environmental matters*"). Moreover, environmental laws in Bulgaria are continuing to evolve and are becoming more stringent. In light of the increasing costs of compliance, the Group may be required to incur additional substantial costs in connection with new environmental requirements. The Group's failure to fully comply with applicable environmental regulations, at all or within prescribed time limits, could lead to the imposition of administrative, civil or criminal sanctions against the Issuer and/or the Guarantor, other Group companies, their management or employees. Non-compliance with environmental regulations may also require the suspension or closure of certain operations of the Group.

Although the costs of the measures taken to comply with environmental regulations have not had a material adverse effect on the Group's financial condition or results of operations to date, in the future, the costs of such measures and liabilities related to environmental damage or non-compliance with environmental regulations may increase, adversely affecting the Group's business, financial condition

and/or results of operations. If the Group's results of operations deteriorate, this could adversely affect the ability of the Issuer and/or the Guarantor to meet their respective obligations under the Notes.

***The Group may not have or may not be able to obtain sufficient insurance to protect itself from different business risks and liabilities.***

The Group's property, in particular the petrol stations owned by the Issuer and its subsidiary Elit Petrol AD, the Guarantor's fuel storage facilities and rail tank cars owned by Petrol Gas OOD, may be destroyed or damaged due to numerous foreseeable or unforeseeable causes. Third parties may also be harmed or suffer damage due to events for which the Group is responsible. Such damage or claims may not be covered by insurance or may only be partially covered by insurance. Certain risks cannot be insured and, in the case of other risks, the costs of insurance premiums are prohibitive compared to the probability of such risk occurring.

Although the Group tends to maintain the types of insurance customarily available to similar commercial businesses in Bulgaria (including property insurance covering damage to buildings, machines, and office equipment, loss of cash and business interruption resulting from, amongst others, fire, explosion, earthquake and natural disasters; insurance against burglary and theft of fuels and stocks; and insurance against accidental damage to third parties occurring at its network of petrol stations) these insurance policies are limited in terms of the maximum amount of claims. Therefore, the claims paid to the Group under such policies may not be sufficient to cover the potential damages suffered by the Group.

The lack of insurance for certain business-related risks or an insufficient level of current insurance coverage may expose the Group to substantial losses. The occurrence of uninsured or partially-insured events or damage could have a material adverse effect on the Group's business, financial condition and/or results of operations. If the Group's results of operations deteriorate, this could adversely affect the ability of the Issuer and/or the Guarantor to meet their respective obligations under the Notes.

***Litigation or other out-of-court proceedings or actions may adversely affect the Group's business, financial condition and results of operations.***

As a result of their operations, the Issuer and other Group companies are often engaged in litigation and out-of court proceedings involving contractors, governmental authorities, customers, employees, shareholders, or others through private actions, administrative proceedings, regulatory action or other actions. Plaintiffs in these types of actions against the Issuer or its subsidiaries may seek remedies that may negatively affect the Issuer's or its subsidiaries' ability to conduct their business (e.g. different kinds of injunctions), and the magnitude of the potential losses relating to such actions may remain unknown for substantial periods of time. There may also be adverse publicity associated with litigation against the Issuer, the Guarantor or other Group companies, their directors and managers, that could adversely affect the reputation of the Issuer, its particular subsidiaries and/or the Group as a whole, regardless of whether the allegations are valid or whether the Issuer, the Guarantor or other Group companies, their directors and managers are ultimately found liable. In addition, there are several pending lawsuits between the controlling company Petrol Holding AD and its shareholders, which may also result in negative publicity and adversely affect the reputation of the Issuer and its subsidiaries, regardless of whether such negative publicity is justified or not. As a result, litigation could have an adverse effect on the Group's business, financial condition and/or results of operations.

#### **Risks Relating to Notes**

***There may be limited liquidity in any trading market for the Notes.***

The Notes are new securities which may not be widely distributed and there may be limited liquidity in any trading market. There is no assurance as to the development or liquidity of any trading market for the Notes.

***The Notes may be redeemed prior to maturity.***

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Bulgaria or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.



The Issuer may also redeem the Notes at any time or from time to time prior to 26 January 2017 at a redemption price equal to 100 per cent. of the principal amount thereof plus accrued and unpaid interest. For further information on the above redemption scenarios, see "*Terms and Conditions of the Notes – Redemption and Purchase*".

***The Notes have not been assigned a credit rating by a credit rating agency.***

In November 2011, the Issuer cancelled its contract with Fitch in a move to reduce costs and at present the Notes do not have a credit rating assigned by any credit rating agency. As a result, there is no independent verification of the credit worthiness of the Issuer or the resultant value of the Notes. This may negatively affect the Issuer's ability to obtain funds from financial institutions and banks and may increase financing costs by increasing the interest rates of the Issuer's outstanding debt or the interest rates at which Issuer is able to either refinance existing debt or incur new debt.

***Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor.***

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***The Issuer's ability to make payments on the Notes will depend on its future operating performance and the Issuer may not be able to obtain the funds required to repay the principal amount of the Notes and/or interest accrued when due.***

The Issuer's ability to repay the principal on the Notes will be dependent on its future operating performance, which is, in turn, dependent on a number of factors. The Issuer may be unable to generate sufficient cash to repay the principal of the Notes at maturity or earlier redemption, in accordance with the Conditions of the Notes. It is likely that the Issuer will need to generate cash from operations or obtain external funds to repay the Notes if and when the holders of the Notes exercise their repurchase option upon a change of control pursuant to the Conditions of the Notes or at maturity, as the case may be. In addition, upon the occurrence of an event of default, the Trustee at its own discretion or if so requested by holders of at least one-fifth in principal amount of the Notes or if so directed by an extraordinary resolution shall be entitled to declare the Notes due and demand immediate redemption thereof. If a change of control or event of default were to occur, the Issuer may not have sufficient funds available, or may not be able to obtain the funds needed, to pay the purchase price for all the Notes submitted for redemption.

If the Issuer does not have sufficient resources to repay the Notes when they become due for repayment, it may find it necessary to refinance its indebtedness before any further investment activities, and such refinancing may not be available on reasonable terms. Such third-party financing, which could be required in order to provide the funds necessary for the Issuer to make the repayment of the Notes, may not be obtainable or only on unsatisfactory terms. This could have a material adverse effect on the business, results of operations and financial condition of the Issuer.

## **Risks Relating to the Republic of Bulgaria**

### ***Political Risks***

Bulgaria has a functioning parliamentary democracy with government policy consistently aimed towards economic and political reforms in harmony with European practices. Major political and economic reforms since 1997 have resulted in NATO membership in March 2004 and EU accession in January 2007.

The latest parliamentary election in July 2009 saw a landslide victory for the Citizens for the European Development of Bulgaria (the "**CEDB**"), a centre-right party that was founded in 2006 by the then Mayor of Sofia, Boyko Borissov. The CEDB defeated the ruling Bulgarian Socialist Party (the "**BSP**") with 39.7 per cent. over 17.17 per cent., but it fell just short of a parliamentary majority (116 out of 240 seats). Boyko Borissov was elected Prime Minister but opted to head a minority government, in order to rule unfettered by concessions, although this decision has made the Government dependent on the support of smaller parties. Mr. Borissov had campaigned strongly on issues including judicial reforms and fighting crime and corruption, which are key areas of concern for the European Commission. The reform process remains slower than expected and the EU continues to keep Bulgaria under close inspection, persistently demanding judicial reform and more evidential results from efforts to fight corruption and organised crime. However, the CEDB has retained support in opinion polls of approximately 27 per cent. which resulted in victories in the presidential and local elections in October 2011.

Delayed reforms and uncertainty over economic policies are eroding support for the minority government of Prime Minister Boyko Borissov, which could result in popular dissatisfaction and relative social instability.

The government also needs to deliver results in fighting corruption and organised crime to maintain EU trust and ensure swift entry into the EU border-free Schengen area.

### ***Macroeconomic Risks***

According to data from the World Bank, the economy of Bulgaria is gradually recovering from its first recession since the introduction of the Currency Board Arrangement (the "**CBA**") in 1997. GDP grew by 0.2 per cent. in 2010 after declining by 5.5 per cent. in 2009. The recovery is slow and has been impacted by the economic slowdown and ongoing uncertainty in Europe. The short-term economic outlook for Bulgaria has weakened. The projected real GDP growth is 1.9 per cent. in 2011 and 1.3 per cent. in 2012, although the increase of EU funds is helping cushion the external factors.

The economic crisis coupled with hidden deficits forced the country to abandon plans for a quick eurozone entry, and left the cabinet struggling with significant fiscal shortfalls.

The current account has swung from surplus to deficit and foreign direct investment in-flows have declined. High private-sector external debt continues to pose a risk to macro-economic stability.

The Bulgarian government still needs to enhance fiscal buffers to avoid any weakening in economic conditions and accelerate structural reforms in order to achieve a stronger and sustainable recovery in growth, job creation and incomes. Failing to implement these policies contains risks for the business environment in which the Group operates.

### ***Credit rating risks***

A serious deterioration in external liquidity and a persistent weakening of fiscal policy would cause government debt to rise significantly and put downward pressure on the Government's credit ratings. This might lead to higher interest levels and cause more difficult conditions for the Group's business in Bulgaria.

S&P expects Bulgaria's economic recovery to slow in 2012, reflecting a general economic slowdown in Bulgaria's main trading partners, coupled with ongoing deleveraging in the banking-sectors in the home countries of Bulgaria's foreign-owned banks. Nevertheless, the S&P outlook for Bulgaria is stable.

This stable outlook reflects S&P's view that Bulgaria's authorities will continue to maintain a favourable fiscal position on the back of ongoing budgetary consolidation and structural reforms, despite the likely slowdown in economic growth prospects and against its gross external debt position.

In December 2011, Fitch revised the outlook for Bulgaria to stable reflecting the agency's review of European Union countries that had a positive outlook. The rating action forms part of a broader review of Central and eastern European sovereigns that Fitch believes to be exposed to the worsening economic and financial conditions in the Eurozone. Fitch believes the probability of upgrades in the next 12 months for Bulgaria has receded and therefore a stable outlook better captures the balance of risks.

Moody's has emphasised the fact that 28 per cent. of the Bulgarian banking system is controlled by Greek banks and about 10 percent of its exports go to Greece, making Bulgaria one of the most exposed eastern European countries to the Greek debt crisis. Moody's expects that the banking system's capital buffers should also be sufficient to absorb additional potential shocks, whether emanating from a further increase in non-performing assets or the regional debt crisis. This opinion resulted in an upgrade of Bulgaria's sovereign rating by one notch to Baa2 in the last report from Moody's in July 2011.

Any material intensification of financial stress and a severe recession in the Eurozone could lead to a negative rating action, particularly if it generates an adverse shock in the Bulgarian banking sector.

### ***Inflation risks***

Inflation in Bulgaria is expected to fall below 4 per cent. in 2011 from 4.4 per cent. in 2010.

Taking into consideration the currency board and the need to maintain a restrictive fiscal policy, expectations are for inflation to remain low, although the negative trade balance of the Bulgarian economy, its dependence on external energy sources and the fixed exchange rate, increase the risk of inflation. If inflation in Bulgaria rises, the actual profitability of any investment in the Notes may decrease.

### ***Currency risks***

After consultation with the International Monetary Fund (the "IMF"), the National Assembly of Bulgaria introduced the CBA, which pegs the local currency, the Lev to the euro at a rate of 1.95583 BGN/EUR, as part of stabilisation measures that ended the 1996-97 financial crisis. Pegging the exchange rate of the Lev to the euro restrains fluctuations of the exchange rate of the Lev against the main foreign currencies within the bounds of the fluctuations between the main currencies themselves and the euro and thereby minimises the currency risk.

Two aspects have raised some concern about the stability of the fixed currency. Firstly, analysis of the real effective exchange rate suggested that the BGN had been more than 15 per cent. overvalued against the euro. Secondly, speculations over potential currency devaluation in Latvia suggested some contagion risk for Bulgaria.

If the Bulgarian parliament voted to change the provisions of the CBA, this may have a material adverse effect upon the business and operations of the Issuer and the Group.

### ***Taxation risks***

Taxes paid by Bulgarian businesses include withholding tax, local taxes and charges, tax on corporate profit, value added tax, excises, import and export duties and property taxes. The interpretation and the procedures of the regulatory framework are still in development which may result in inconsistent application of existing regulations and uncertainty as to the application and effect of new laws and regulations on the Group's results.

Furthermore, investors must take into consideration that the value of investment in the Notes may be adversely affected by changes in the applicable tax legislation.

### ***Social risks***

Large-scale unrest occurs occasionally in Bulgaria but in recent years, with the deepening of the global economic crisis, popular dissatisfaction is increasing and frustrations over prolonged economic stagnation periodically result in street demonstrations and labour unrest.

In response to the global economic crisis and the restrictive fiscal policies adopted by the government, trade unions have increased activity and criticism of Government policy. Any intensification of the social and labour unrest could trigger falling sales or disruption to the Group's operations, which in turn could adversely affect the Issuer's ability to meet its obligations under the Notes and the Guarantor's ability to meet its obligations under the Guarantee.

### ***Risks relating to the legal system and enforcement of judgments***

Bulgaria continues its efforts to harmonise its legislative framework with EU practices, although reform has been slow, hampered by political influence and widespread corruption. Additionally, the legal and regulatory systems lack an institutional history and there may be no generally observed procedural guidelines. As a result, Bulgarian courts are not as effective in the enforcement of judgements and the settlement of disputes in relation to statutory and contractual obligations as courts in Western Europe.

Regardless of these problems, the Bulgarian legal system is relatively modern and the process of synchronisation with the laws and regulations of the EU is a comparatively consistent one.

Any future changes in the licensing regimes or legislation relating to safe working conditions and environmental requirements which relate to the business of the Group may lead to temporary difficulties, reducing the Group's effectiveness and having an adverse effect on its operational and financial performance.

## SELECTED FINANCIAL INFORMATION

### Selected Financial Information of the Issuer

The financial data set forth below as of and for the periods ended 30 September 2011, 30 September 2010, 31 December 2010 and 31 December 2009 has been derived from the Issuer's Audited Financial Statements and the Issuer's Interim Financial Statements.

The financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Issuer's Audited Financial Statements and the Issuer's Interim Financial Statements, and the related notes incorporated by reference herein. See also "Presentation of Financial and Other Information – Financial Information".

Consolidated income statement	30 September 2011	30 September 2010	31 December 2010	31 December 2009
	<i>BGN'000</i>			
	<i>(unaudited)</i>			
Revenue .....	1,055,398	836,091	1,218,291	1,015,158
Other income .....	2,079	2,979	7,428	8,815
Cost of goods sold.....	(989,115)	(761,477)	(1,110,412)	(925,539)
Materials and consumables .....	(6,269)	(6,630)	(9,013)	(8,322)
Hired services .....	(20,288)	(23,749)	(32,617)	(38,425)
Employee benefits expenses .....	(19,245)	(15,971)	(21,716)	(22,850)
Depreciation and amortisation expenses .....	(11,256)	(10,797)	(16,510)	(18,211)
Impairment of assets .....	-	-	(1,410)	194
Other expenses.....	(6,913)	(4,087)	(7,637)	(6,758)
Finance income .....	20,251	5,761	7,828	4,205
Finance costs .....	(25,837)	(20,891)	(30,973)	(25,148)
Share of profit in associates.....	-	197	53	289
Profit (loss) before taxation .....	(1,195)	1,426	3,312	(16,592)
Income tax benefit (expense) .....	1,563	(729)	(1,205)	1,002
<b>Net profit (loss) for the period.....</b>	<b>368</b>	<b>697</b>	<b>2,107</b>	<b>(15,590)</b>
Owned by:				
Owners of the Parent Company	357	809	2,306	(15,489)
Non-controlling interest	11	(112)	(199)	(101)
Total comprehensive income for the period	368	697	2,107	(15,590)
Earnings/loss per share (BGN) .....	-	-	0.03	(0.25)

Consolidated balance sheet	30 September 2011	31 December 2010	31 December 2009
	<i>BGN'000</i>		
	<i>(unaudited)</i>		
<b>Non-current assets</b>			
Property, plant and equipment and intangible assets .....	167,913	174,284	168,173
Investment properties .....	28,191	28,470	-
Investments in associates .....	-	-	15,299
Goodwill .....	18,332	18,332	18,297
Deferred tax assets .....	4,364	1,344	72
Loans granted.....	11,943	34,902	21,034
Compulsory inventory .....	63,980	34,939	13,398
Total non-current assets .....	294,723	292,271	236,273
<b>Current assets</b>			
Inventories .....	43,144	77,733	47,927
Loans granted.....	98,012	94,437	42,839
Trade and other receivables .....	197,683	83,181	77,891
Current income tax receivable.....	8	-	-
Cash .....	68,989	11,321	19,363
Total current assets .....	407,836	266,672	188,020
<b>Total assets .....</b>	<b>702,559</b>	<b>558,943</b>	<b>424,293</b>
<b>Shareholder's equity</b>			
Share capital.....	76,401	76,401	76,401
Reserve from adoption of IFRS .....	18,542	20,456	20,657
Legal reserves .....	18,864	18,914	18,914
Accumulated loss .....	(79,176)	(81,177)	(83,918)
Total equity, attributable the owners of the Parent Company	34,631	34,594	32,054
Non-controlling interest .....	54	4,301	(101)
Total equity and reserves .....	34,685	38,895	31,953
<b>Non-current liabilities</b>			

<b>Consolidated balance sheet</b>	<b>30 September 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
		<i>BGN'000</i>	
	<i>(unaudited)</i>		
Borrowings .....	42,396	43,485	195,505
Obligations under finance lease .....	1,627	2,379	3,935
Retirement benefits obligations.....	190	190	205
Total non-current liabilities.....	44,213	46,054	199,645
<b>Current liabilities</b>			
Trade and other payables .....	316,400	228,620	174,962
Borrowings .....	306,129	240,207	15,290
Obligations under finance lease .....	1,111	1,517	1,746
Retirement benefits obligations .....	21	21	35
Current income tax payable .....	-	3,629	662
Total current liabilities.....	623,661	473,994	192,695
Total liabilities.....	667,874	520,048	392,340
<b>Total equity and liabilities.....</b>	<b>702,559</b>	<b>558,943</b>	<b>424,293</b>

### Selected Financial Information of The Guarantor

The financial data set forth below as of and for the periods ended 30 September 2011, 30 September 2010, 31 December 2010 and 31 December 2009 has been derived from the Guarantor's Audited Financial Statements and the Guarantor's Interim Financial Statements.

The financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Guarantor's Audited Financial Statements and the Guarantor's Interim Financial Statements, and the related notes incorporated by reference herein. See also "*Presentation of Financial and Other Information – Financial Information*".

<b>Income statement</b>	<b>30 September 2011</b>	<b>30 September 2010</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
			<i>BGN'000</i>	
		<i>(unaudited)</i>		
Revenue .....	978,244	735,169	1,081,078	884,400
Other income .....	898	1,325	2,655	908
Cost of goods sold.....	(951,090)	(709,169)	(1,049,191)	(850,040)
Materials and consumables .....	(487)	(481)	(708)	(589)
Hired services .....	(11,679)	(10,805)	(15,446)	(15,338)
Employee benefits expenses .....	(3,786)	(3,368)	(4,537)	(4,579)
Depreciation and amortisation expenses .....	(1,325)	(1,171)	(1,565)	(1,559)
Impairment of assets .....	-	-	12	200
Other expenses.....	(3,439)	(1,991)	(2,885)	(3,008)
Finance income.....	6,586	3,825	49,617	2,104
Finance costs.....	(214,902)	(226,256)	(38,389)	(217,771)
Profit (loss) before taxation.....	(200,980)	(212,922)	20,641	(205,272)
Income tax benefit .....	1,657	1,240	2,275	1,876
<b>Profit (loss) for the period .....</b>	<b>(199,323)</b>	<b>(211,682)</b>	<b>22,916</b>	<b>(203,396)</b>
<b>Total comprehensive income for the period</b>	<b>(199,323)</b>	<b>(211,682)</b>	<b>22,916</b>	<b>(203,396)</b>

<b>Balance sheet</b>	<b>30 September 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
		<i>BGN'000</i>	
		<i>(unaudited)</i>	
<b>Non-current assets</b>			
Property, plant, equipment and intangible assets.....	47,550	46,918	44,217
Investments in subsidiaries .....	50,947	46,404	-
Investments in associates .....			22,094
Interest-bearing loans granted .....	11,943	34,902	-
Compulsory stock .....	63,980	34,939	13,398
Deferred tax assets .....	5,396	3,739	1,464
Total non-current assets	179,816	166,902	81,173
<b>Current assets</b>			
Inventories .....	18,356	35,195	20,954

Balance sheet	30 September 2011	31 December 2010	31 December 2009
		BGN'000	
	(unaudited)		
Interest-bearing loans granted .....	10,312	9,239	28,084
Trade and other receivables .....	157,779	27,128	41,176
Short-term financial assets .....	194,799	363,645	319,331
Recoverable income tax .....	104	104	-
Cash .....	60,315	4,982	9,211
Total current assets .....	441,665	440,293	418,756
<b>Total assets .....</b>	<b>621,481</b>	<b>607,195</b>	<b>499,929</b>
<b>Equity</b>			
Share capital.....	262,757	62,757	62,757
Retained earnings.....	(223,424)	(1,185)	(24,101)
Total equity .....	39,333	61,572	38,656
<b>Non-current liabilities</b>			
Interest-bearing loans .....	4,467	4,454	304,989
Total non-current liabilities.....	4,467	4,454	304,989
<b>Current liabilities</b>			
Trade and other payables .....	338,561	195,271	144,877
Interest-bearing loans .....	239,120	345,898	11,293
Income tax payable .....	-	-	114
Total current liabilities.....	577,681	541,169	156,284
Total liabilities.....	582,148	545,623	461,273
<b>Total equity and liabilities .....</b>	<b>621,481</b>	<b>607,195</b>	<b>499,929</b>

## OPERATING AND FINANCIAL REVIEW

*The following discussion is based on, is qualified by reference to and should be read in conjunction with the consolidated financial statements of the Issuer, including the notes thereto.*

### General

The following operating and financial review should be read in conjunction with the Group's historical audited consolidated financial statements for the years ended 31 December 2010 and 2009 included elsewhere in this document and the Group's historical consolidated interim financial statements for the nine months ended 30 September 2011 and 2010. The Group's historical consolidated financial statements for the years ended 31 December 2010 and 2009 have been audited by Deloitte. The audit opinions of Deloitte for 2010 and 2009 are qualified in certain respects. For more information, see "*Risk Factors – Risks related to the Group's business – The Group's audited consolidated financial statements are qualified and may not present fairly the Group's financial position.*" The Group keeps its records and prepares its consolidated financial statements in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the IFRS Interpretations Committee, as approved by the EU (the EU) and applicable in the Republic of Bulgaria.

### Scope of Consolidation

#### Subsidiaries

The Group's historical consolidated financial statements incorporate the financial statements of the Issuer and entities controlled by the Issuer (its subsidiaries and special purpose entities). Control is the power to govern the financial and operating policies of an enterprise, so as to obtain benefits from its activities.

In compliance with SIC 12 *Consolidation - Special Purpose Entities*, the financial statements of two entities are consolidated in their capacity of special purpose entities as of 1 January 2009

For consolidation purposes, the separate financial statements of the Issuer, its subsidiaries and the controlled special purpose entities have been combined on a line-by-line basis by adding together items of assets, liabilities, equity, income and expenses. All intragroup balances as of 30 September 2011, 30 September 2010, 31 December 2010 and 2009 and intragroup transactions as of 30 September 2011, 30 September 2010, 31 December 2010 and 2009, as well as all intragroup profits and losses, including unrealised profits and losses are eliminated in full. The carrying amount of the investments in each subsidiary held by the Issuer or any of the subsidiaries and the Issuer's portion of equity of each subsidiary are eliminated.

The results of subsidiaries, which have been acquired or disposed by the Group during the reporting period, are included in the consolidated income statement from the date of the acquisition, till the date at which control ceases.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly to the Issuer. Non-controlling interest is presented within equity in the consolidated balance sheet, separately from the equity of the owners of the Issuer. In each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or by the proportional share of the non-controlling interest in the identifiable net assets of the acquiree. Profit or loss or any component of the other comprehensive income is attributed to the owners of the Issuer and non-controlling interests. The total comprehensive income is attributable to the owners of the Issuer and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group is comprised of the following subsidiaries:

Subsidiary	Main activity	Investment as of 30 September 2011	Investment as of 31 December 2010	Investment as of 31 December 2009
Naftex Petrol EOOD	Wholesale with fuels	100 per cent.	100 per cent.	100 per cent.
Petrol Trans Express EOOD	Transport services	100 per cent.	100 per cent.	100 per cent.
Petrol Technika EOOD	Service and maintenance of fuel stations	100 per cent.	100 per cent.	100 per cent.
Petrol Gas EOOD	Wholesale with fuels	100 per cent.	90 per cent.	90 per cent.
Petrol Properties EOOD	Real estate and moveable property trade	100 per cent.	100 per cent.	100 per cent.



<b>Subsidiary</b>	<b>Main activity</b>	<b>Investment as of 30 September 2011</b>	<b>Investment as of 31 December 2010</b>	<b>Investment as of 31 December 2009</b>
Naftex Petrol Trade EOOD	Wholesale with fuels	100 per cent.	-	-
Elit Petrol AD	Management, rent and sale of properties	99.99 per cent.	99.99 per cent.	100 per cent.
Eurocapital-Bulgaria EAD	Management, rent and sale of properties and construction works through sub-contractors	100 per cent.	89.97 per cent.	36.92 per cent.
BPI EAD	Rent of property	100 per cent.	100 per cent.	-
Naftex Security EAD	Security services – personal and properties	100 per cent.	100 per cent.	-
Jurex Consult AD	Legal advice, management and consulting services	79.95 per cent.	79.95 per cent.	-
Varna Storage EOOD	Management, rent and sale of properties	100 per cent.	-	-

### ***Special Purpose Entities***

In compliance with SIC 12 *Consolidation – Special Purpose Entities (SPE)* and the approved accounting policy, the Group consolidates such entities because the substance of the relationship between the Group and the SPEs indicates that they are controlled by the Group, as follows:

- The activities of the SPEs are being conducted on behalf of Naftex Petrol according to its specific business needs so that Naftex Petrol obtains benefits from the SPEs' operations,
- Naftex Petrol has the decision-making powers to obtain the majority of the benefits of the activities of the SPEs,
- Naftex Petrol has rights to obtain the majority of the benefits of the SPEs and is therefore exposed to risks incident to their activities.

The consolidated SPEs controlled by the Group as at 30 September 2011, 30 September 2010, 31 December 2010 and 2009 are as follows:

<b><u>Name of SPE</u></b>	<b><u>Main activity</u></b>
Petrol Trade EOOD	Import of petroleum products
Naftex Trade EOOD	Import of petroleum products

### **Business Lines**

The Group's core business comprises three main activities: retail, wholesale and storage of fuels and petroleum products. Whilst the first two have been developed into separate business lines, storage activities are being developed into an independent business line.

The retail business, conducted by the Issuer, comprises sales of petroleum and non-petroleum products through the petrol station network. The Group's network comprises petrol stations situated within Bulgaria and operated under the Petrol brand.

The wholesale business is carried out by Naftex Petrol. Naftex Petrol is among the largest wholesalers of oil products and lubricants on the Bulgarian market and offers a variety of oil products to the public sector, industrial consumers and to retail operators.

The storage business is performed by Naftex Petrol. For the last several years the Group has managed to further expand the storage business. Currently, the Group holds licenses under the MSCOPPA for storage of diesel oil, gasoline and other petroleum products with total capacity of 314 thousand m<sup>3</sup>. The Group owns 80 fuel storage facilities situated on a total area of 3,215 thousand m<sup>2</sup> with total tank capacity of 1,197 thousand m<sup>3</sup>. Currently the Group uses 12 of these facilities, 2 facilities were leased out to third parties and the remaining facilities belong to the group of the so-called "reserve storage facilities". The revenues and results of the storage business are presented in the financial statements of Naftex Petrol.

## **Factors affecting results of operations**

The Group's results of operations are affected by a number of factors, including macroeconomic conditions in Bulgaria, competition, product mix, relationships with suppliers, legislative changes, changes in currency exchange rates, increases in excise duties, weather conditions, seasonality and fluctuations in crude oil and petroleum product prices.

### ***Macroeconomic conditions in Bulgaria***

The Group operates in Bulgaria and its revenues are generated in Bulgarian lev. The operations of the Group are linked with the overall economic situation in the country, the successful implementations of market-driven economic reforms, GDP growth and purchasing power of Bulgarian consumers. The continued implementation of market economy policies and the successful conclusion of the EU accession process should have a beneficial impact on the Bulgarian economy and improve the environment in which the Group operates.

### ***Competition***

The Group operates in a highly competitive market with completely liberalised pricing mechanisms. Among its major competitors on the wholesale side are international companies such as OMV Bulgaria EOOD, Rompetrol Bulgaria AD and Lukoil Bulgaria EOOD as an exclusive distributor of the product of Lukoil Neftochim Burgas AD. On the retail side Group's competitors are Shell Bulgaria EAD, OMV Bulgaria EOOD, Lukoil Bulgaria EOOD, Eko Bulgaria EAD, Rompetrol Bulgaria AD and a number of small retailers. During the last year the retail fuel market in Bulgaria has continued to reflect the negative impact of the financial crisis. Shrinking consumption led to decline in sales of the leading players and small independent players, some of which were forced to drop out of business or to sign franchise/dealership arrangements with the major companies in the sector. As a result of the overall slowdown economic activity and the implementation of additional legislation control by the government, the market share of the small independent players dropped under 19 per cent.

### ***Product mix***

In 2011, the Bulgarian fuel market did not witness a significant change, as the last-years tendency of shifting from all types of gasoline to diesel oil and LPG remained. The extended diesel oil consumption is accounted for by modern diesel-engines entering the market, as well as increasing use of diesel in transport industry. The branded fuels and CNG came widely into the market. Due to their better quality, these fuels can offer acceleration of automobile power, expense reduction, increased engine life, etc.

### ***Relationships with suppliers***

After Naftex Petrol changed its logistic scheme and redirect to import of fuels under contracts with supplies from Greece, Romania, Turkey and Israel in 2009, the close relations with the suppliers and the gained experience, reasserted the position of Naftex Petrol as the leading fuel importer in the country in 2010.

According to concluded agreement, since March 2008, the subsidiary Naftex Petrol is the sole supplier for the retail network of fuels. From September 2008, the subsidiary took up the full logistics related to the supply process.

### ***Legislative changes***

The Group's results from operations reflected the amendments in the existing legislation in Bulgaria. The most important piece of legislation which will influence the Group's business is the voted in 2003 MSCOPPA, which requires all obliged persons (importers and producers) and the state to accumulate and maintain compulsory stock of products covering 90 days of their respective annual sales for the preceding year. According to the law this process is gradual and starts with 10 days in 2004 and has to reach 90 days by 2012. During 2010 the Group stored 92,280 m<sup>3</sup> of petroleum products (own and for external clients) in compliance with the law (2009: 62,127 m<sup>3</sup>).

With regard to the admission of Bulgaria as a member of EU effective January 2007, the requirements for the quality of the petroleum products and the ecological standards have been raised. According to the Ordinance of Requirements for Liquid Fuel Quality, the Conditions, the Procedure and the Method of

Control over Liquid Fuels since 1 January 2009 the diesel motor fuel and the motor gasoline should be with a maximum sulfur content of 10 mg/kg (10ppm). Additional requirements were imposed under the Renewable and Alternative Energy Sources and Biofuel Act (RAESBA), as from March 2010 the gradual blending of the liquid fuels of crude oil origin consumed in the transportation sector with biofuel must begin. Therefore, as from May 2010 the fuel retail traders were obliged to blend diesel oil with 2 per cent. biofuel, and as from September 2010 with 3 per cent. of biofuel content.

Towards provision of additional and more effective control are the adopted amendments in Ordinance N-18 for Recording and Reporting of Sales in the Trade Sites by Fiscal Devices dated 13 December 2006 which requires since the beginning of 2010 all persons engaged in sales of liquid fuels to submit electronically data from the daily reports from every fiscal memory to the Local Administration of the National Revenue Agency till the end of the following day.

#### ***Currency exchange rates***

The Group prepares its IFRS Consolidated Financial Statements in BGN. Since 1997, the Bulgarian Lev has been pegged to the Deutsche mark and, subsequently, to the euro. Currently, the exchange rate is fixed at euro 1.00 = BGN 1.95583. As the Bulgarian Lev to euro exchange rate is fixed, the euro to U.S. dollar exchange rate directly impacts the U.S. dollar to Bulgarian Lev exchange rate, which is set out below as of the dates indicated:

30 September 2011: U.S.\$ 1 = BGN 1.44844

31 December 2010: U.S.\$ 1 = BGN 1.47276

31 December 2009: U.S.\$ 1 = BGN 1.36409

The Group has short and long term loans denominated in euro, Lev and U.S. dollars. It is therefore exposed to the risk of appreciation of the U.S. dollar against the euro. The amount of such direct exposure is, however, limited as the vast majority of the Group's borrowings are in Bulgarian Lev and euro. For this reason, the Group does not use financial instruments to hedge its currency risk but renegotiates its loans and borrowings in euro and Lev in order to eliminate one part of it. The fluctuations in the exchange rate affect the Group's sales and cost of sales as crude oil prices, denominated in U.S. dollars, determine the price of oil products.

#### ***Increases in excise duties***

One of the conditions for Bulgaria's accession to the EU was the implementation of a step-by-step increase of excise duties on petroleum products in order to reach the minimum levels permitted in existing EU member states. Such increased duties may additionally lead to further reductions in gross margins of the Group. The last increase of this kind was undertaken in 2008. Excise duties, tax base and methods of payments are set in the EDTWA. The same law provides an opportunity for suspension of duty obligations. The excise duty suspension arrangement was introduced in compliance with the requirements of Council Directive 92/12/EES dated February 1992 and provides for an opportunity for temporary suspension of excise duty taxation in case the person, obligated to pay it, is a licensed warehouses keeper. In accordance with the last amendments in the EDTWA, every licensed storage holder should at its own expense provide internet access for the Customs authorities to its automated accounting system, aiming to provide control in real time over the stored excise goods and to ensure compliance with the deferred payment of excise regime.

#### ***Weather conditions and seasonality***

The Group's results of operations are affected by weather conditions and seasonal variations in demand for certain oil products. The fuel consumption is highest in the second and third quarters, which is due to the annual vacations during the summer months as well as to the agricultural producers, who increase their consumption during autumn months.

#### ***Fluctuations in crude oil and petroleum product prices***

Since the international quotations of crude oil are used as a base for purchase price and sales price calculation, fluctuations in prices of crude oil and oil products significantly affect the Group's sales and

cost of sales. In 2011 the international prices remained stable, ending the upward trend which began in 2009, after the dramatic drop in the last months of 2008.

## **Results of operations**

### ***Revenue***

In the year ended 31 December 2010, the Group's net proceeds amounted to BGN 1,225.7 million (EUR 626.7 million) and consisted primarily of net sales by the retail and wholesale business lines less intra-group adjustments. As in all former years, the major part of Group's sales revenue is generated by sales of goods (99 per cent.). In 2010, sales of goods amounted to BGN 1,204.4 million (EUR 615.8 million), a 20 per cent. increase compared to 2009. Sales of goods comprise mainly of retail and wholesale sales of fuel (98 per cent.).

Net revenues increased by 20 per cent. in 2010 year on year and 26 per cent. in the first nine months of 2011 year on year. The growth in revenues is almost entirely due to the higher selling prices in 2010 compared to 2009 and in first nine months of 2011 compared to 2010. During the last few years a decreasing trend is observed over retail sales volumes. The negative trend of volumes sold is attributable to the reduced consumption of fuels, affected by the deepening economic crisis in the country. Evidence for the latter is the fact that despite the reduction in volumes by 9 per cent. in 2010 the Group keeps unchanged its relative share of sales on retail fuel market. Despite the decrease in the sales volumes, the growth in the average selling prices in 2010 entirely compensated the negative impact of the drop in sales. Marketing volumes via the retail network decreased by 9 per cent. in the first nine months of 2011 compared to the same period in 2010 to 205 million litres of petroleum products.

In contrast, the sales volumes of light fuels on the wholesale market increased by 14 per cent. in 2010 year on year to 466 million litres and by 18 per cent. in the first nine months of 2011 to 375 million litres compared to the same period of 2010. The growth is due to the greater sales volumes to the key wholesale clients and the competitive pricing strategy of Naftex Petrol, which is based upon international quotations of oil products.

For more information, see the Group's audited consolidated financial statements for the year ended 31 December 2010. As of 30 September 2011, net proceeds amounted to BGN 1,057.5 million (EUR 540.7 million).

### ***Gross margins***

The Group's total gross margin calculated as a percentage of consolidated net revenue from sales of goods rose from 7.5 per cent. in 2009 to 7.8 per cent. in 2010. The growth in absolute amount is BGN 18.5 million (EUR 9.5 million) and is mainly due to the greater consolidated gross margin realised from sales of fuels. The latter increased by 25 per cent. to BGN 88.4 million (EUR 45.2 million) in 2010 compared to BGN 70.6 million (EUR 36.1 million) in 2009. On the wholesale market, the gross margin from fuels sold rose by (22 per cent.) or BGN 5.3 million (EUR 2.7 million) to BGN 29.4 million (EUR 15.0 million), but as a percentage of revenue from sales decreased to 4.2 per cent. (2009: 4.5 per cent.). The increase in gross margin on the retail market is BGN 12.6 million (EUR 6.4 million) to BGN 59.0 million (EUR 30.2 million). The gross margin calculated as a percentage of fuel sales grew to 12.4 per cent. (2009: 10.5 per cent.). The latter is primarily due to the changes in pricing policy of the main participants in this market segment.

### ***Key operating expenses***

#### ***Staff costs***

In 2010, staff costs decreased by 5 per cent. to BGN 21.7 million (EUR 11.1 million), which is due to the reduction in remuneration by BGN 0.7 million (EUR 0.4 million) and in social expenses by BGN 0.4 million (EUR 0.2 million). The main reason for the decline in this group of expenses was the reduction in personnel because of the closure or sale of unprofitable trade sites. The restrictive policy adopted in relation to social expenses for food vouchers has also lead to a decrease in staff costs. This is in line with the decreasing headcount and cost containment policy adopted by the management.

### *Depreciation and amortisation*

Depreciation and amortisation of the Group's tangible and intangible fixed assets is charged based on the straight-line method with the following useful lives:

Useful life	2011	2010	2009
Administrative and trade buildings .....	25 years	25 years	25 years
Machinery, plant and equipment.....	2 - 25 years	2-25 years	2-25 years
Vehicles .....	4 - 10 years	4-10 years	4-10 years
Office equipment .....	7 years	7 years	7 years
Intangible assets.....	2 - 7 years	2-7 years	2-7 years

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

For the year ended 31 December 2010, the Group's depreciation and amortisation charges decreased to BGN 16.5 million (EUR 8.4 million), a decrease of 9 per cent. compared with the same period of 2009, and for the first nine months of 2011 to BGN 11.3 million (EUR 5.8 million) an increase of 4.3 per cent.

### *Hired services*

Hired services comprise various expenses such as commissions, transport, repair and maintenance of assets, consulting and training expenses, advertising, rents, insurance and other expenses. In 2010, hired services expenses decreased by BGN 5.8 million (EUR 3 million) to BGN 32.6 million (EUR 16.7 million), and the decrease was observed in all expenses, except rents, collection and holding fees. The drop in commission expenses by BGN 3.2 million (EUR 1.6 million) had the most significant impact leading to an overall reduction in costs for hired services by 15 per cent. The lower value for commissions expenses is a result of both the optimisation of the retail distribution network and termination of contracts with certain partners in franchise and dealership programs, and the lower dealer commissions related to the lower volume of fuels sold. Another reason for the decline in commissions is the termination of aircraft refueling in 2009. In 2010, the transport expenses decreased significantly by 37 per cent., reflecting the optimised logistic schemes, partly shifting fuel supplies to railway transport, and the lower volume of deliveries, caused by the economic crisis. During 2011, the Group reduced its advertising budget, decreasing advertising expenses by 18 per cent. to BGN 1.2 million (EUR 0.6 million). Following the adoption of a strategy to reduce general and administrative expenses in 2010 a drop in insurance, security, consulting and training expenses was reported. As a result of the change in the Group's policy regarding the Group's car fleet, resulting in transition from car acquisition by means of finance lease to signing of operating lease contracts, the rent expenses rose by BGN 1.1 million (EUR 0.6 million) to BGN 4.4 million (EUR 2.2 million). In the first nine months of 2011 expenses for hired services decreased by 15 per cent. to BGN 20.3 million (EUR 10.4 million) compared with the first nine months of 2010.

### *Materials and consumables used*

Expenses in relation to materials and consumables used primarily relate to costs of spare parts, fuels, working clothes, utilities and office consumables. In 2010 these expenses grew by BGN 0.7 million (EUR 0.4 million) to BGN 9 million (EUR 4.6 million). The increase by 8 per cent. is due mainly to the increase by BGN 0.7 million (EUR 0.4 million) in expenses related to fuels and lubricants. This reflected the change in logistic scheme, the higher run made by the Group's tanker trucks, and the higher average fuel prices. There was an impact on the overall increase in the materials expenses due to the higher value of the written-off assets, which did not meet the recognition criteria for non-current assets in the amount of BGN 0.4 million (EUR 0.2 million). During 2010, a decline was reported in spare parts (30 per cent.), office consumables (18 per cent.) and advertising materials (17 per cent.). The decline in spare parts by BGN 0.3 million (EUR 0.2 million) is a result of the more moderate investment policy conducted by the Group's management, related to the economic crisis.

### *Other operating expenses*

Other operating expenses include various other kinds of expenses, such as alternative taxes according to the Corporate Income Tax Act, scrapped fixed assets and materials and impairment of assets, travel

expenses, penalties, indemnities, shortages. In 2010, the other operating expenses amounted to BGN 7.6 million (EUR 3.9 million), which is an increase of 13 per cent. compared to 2009. The increase is due mainly to the greater amount of the expenses for shortages of assets by BGN 1 million (EUR 0.5 million) to BGN 3.8 million (EUR 1.9 million) in 2010. The increase of the latter to a great extent is due to the written-off land by the Parent company at the amount of BGN 0.4 million (EUR 0.2 million). During the year, expenses for penalties and defaults increased by BGN 0.6 million (EUR 0.3 million).

#### *Impairment of assets*

In 2010, the Group reported an increase in expenses for impairment of assets to BGN 1.4 million (EUR 0.7 million). The increase is due mainly to the impairment of goodwill in the amount of BGN 1.2 million (EUR 0.6 million), caused by the acquisition of the subsidiary Naftex Security EAD.

#### *Profit from operations*

The Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) grew from BGN 22.3 million (EUR 11.4 million) in 2009 to BGN 42.9 million (EUR 21.9 million) in 2010. The increase of EBITDA by BGN 20.6 million (EUR 10.5 million) is due to the increase of the gross margin from sales of goods by BGN 18.6 million (EUR 9.5 million), and to the reduction of the Group's operating expenses (without the depreciation expenses) by BGN 3.8 million (EUR 1.9 million). EBITDA in 2010 is the highest value of this indicator throughout the whole corporate history of Petrol Group (not taking into account the value of EBITDA for 2008, when the gain from sale of petrol stations and one fuel storage facility to Lukoil Bulgaria EOOD had the main impact on EBITDA).

The higher EBITDA has a positive effect on Group's earnings before interest and taxes ("**EBIT**"). EBIT increased by BGN 22.3 million (EUR 11.4 million) in 2010 to BGN 26.4 million (EUR 13.5 million), compared to BGN 4.1 million (EUR 2.1 million) in 2009. An additional positive influence on this indicator was the decrease of depreciation and amortisation expenses by 9 per cent.

#### *Net financial costs*

In 2010, the Group reported net finance costs of BGN 23.1 million (EUR 11.8 million), compared to BGN 20.9 million (EUR 10.7 million) in 2009. The increase of BGN 2.2 million (EUR 1.1 million) is due mainly to the greater loss from foreign exchange rates in the amount of BGN 5.7 million (EUR 2.9 million), driven by the movements in the exchange rates of the US dollar against the euro and consequently, against the Bulgarian Lev as the Bulgarian National Bank has fixed the exchange rate between the Bulgarian Lev and the euro.

In 2010, interest expenses rose by BGN 1 million (EUR 0.5 million) to BGN 21.6 million (EUR 11 million). The contracted margins on bank loans granted to the Group varied in the range between 4 per cent. and 10 per cent. The annual coupon rate on the debenture loan is 8.375 per cent. The reported increase in interest expenses by 5 per cent. is due to the greater amount of interest expenses arising from loan received from related parties, and to the increase in interest expenses on trade payables.

In 2010, the Group's interest income increased by 86 per cent. to BGN 7.8 million (EUR 4 million), compared to BGN 4.2 million (EUR 2.1 million) in 2009. The growth is due to the increase in interest on trade loans granted by BGN 3.6 million (EUR 1.8 million) to BGN 6.6 million (EUR 3.4 million).

#### **Taxation**

Income tax expense comprises current income tax and deferred tax.

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

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

In this case the deferred tax is also recognised outside profit or loss either directly in other comprehensive income or directly in equity.

Although the taxation in Bulgaria is not performed on a consolidation basis, the Group has adopted a policy to recognise deferred tax assets (liabilities) on all temporary differences arising from the elimination of intra-group unrealised profits from sales of property, plant and equipment treated as temporary differences. The reversal of these temporary differences reflects in subsequent adjustments of depreciation costs in the acquirer or when the Group derecognises these assets and relevant margins are realised.

The current amount of deferred tax asset is reviewed at the end of each reporting period. The Group reduces their amount to the extent that it is no probable that sufficient profit will be available against which the deferred tax asset to be utilised.

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

In accordance with the tax legislation enforceable for the periods ended 30 September 2011, 31 December 2010 and 2009 the tax rates applied for the calculation of current tax liabilities of the Group is 10 per cent., respectively. For the calculation of the deferred tax assets and liabilities as of 30 September 2011, 31 December 2010 and 2009, the Group has used a tax rate of 10 per cent.

#### ***Net income***

Due to the factors mentioned in the above analysis, the Group's net income increased to BGN 2.1 million (EUR 1.1. million) in 2010 and decreased to BGN 0.4 million (EUR 0.2 million) in the first nine months of 2011 from a negative BGN 15.6 million (EUR 8.0 million) for the preceding year and BGN 0.7 million (EUR 0.4 million) for the first nine months of 2010 respectively.

#### **Liquidity and capital resources**

The Group's major capital requirements consist of general working capital needs, service of indebtedness and funding of investments. The Group's main sources of liquidity are cash balances, internal cash flows, long-term and short-term borrowings and leases, reduction of the periods of receivables and extension of the periods of payables. Fluctuations in the foreign exchange and interest rates have an impact on the liquidity and capital resources of the Group.

In 2010, accounts receivable collection period decreased to 15 days compared to 22 days in 2009. This reflected both the increase in revenue from sales to non-related parties by BGN 204 million (EUR 104.3 million) and the decline in trade receivables by BGN 11.3 million (EUR 5.8 million). However, the Group's inventories turnover period increased from 17 days in 2009 to 20 days in 2010. For more information, see the Group's audited consolidated financial statements for the year ended 31 December 2010.

#### **Qualifications**

##### ***Paragraph 6 of the Audit Opinion – Petrol AD 2010 Accounts***

The qualification in paragraph 6 of the audit opinion relates to the amount of overdue receivables, which exceeded BGN 23 million (EUR 11.8 million) as of 31 December 2010. As stated by the auditor, despite the indications of an impairment of the overdue receivables, the Group has not performed an analysis and review of the recoverable amount of these receivables and therefore no allowance for impairment has been provided in the consolidated financial statements. For more information, see "*Risk Factors – Risks relating to the Group's business - The Group's audited consolidated financial statements are qualified and may not fairly present the Group's financial position.*"

#### ***Paragraph 7 of the Audit Opinion – Petrol AD 2010 Accounts***

The qualification in paragraph 7 of the audit opinion relates to the consolidation of two special purpose entities ("SPEs") in the Group's accounts. Deloitte were unable to obtain sufficient and appropriate evidence that the Group exercises control over the SPEs as the Group does not have any direct or indirect interest in their share capital. However, according to paragraph 8 of SIC 12 Consolidation – Special Purpose Entities, an SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity. Based on the historical facts, the management of the Group considers that the substance of the relationship between Petrol Group (via Naftex Petrol) and the SPEs was one of control, regardless of the fact that Petrol Group did not own more than half of their equity or the majority of voting power. The following particular circumstances, as indicators of control (described in paragraph 10 of SIC 12), further substantiate the management's opinion:

- The activities of the SPEs are being conducted on behalf of Naftex Petrol according to its specific business needs so that Naftex Petrol obtains benefits from the SPEs' operations. The SPEs are providing additional financing to Naftex Petrol in order to support and develop its commercial operations;
- Naftex Petrol has the decision-making powers to obtain the majority of the benefits of the activities of the SPEs; this is agreed between Naftex Petrol, the legal owner Petrol Holding AD and the SPEs in a signed document. Furthermore, control is presumed as Naftex Petrol's senior management act simultaneously as key management personnel of the SPEs; and
- Naftex Petrol has rights to obtain the majority of the benefits of the SPEs and is therefore exposed to risks incident to their activities. Because of the adopted pricing on the intragroup transactions very little profit remains with the SPEs, all major risks incident to the major operations are ultimately borne by Naftex Petrol.

In any case, the management of the Group believes that this qualification does not expose the Group to any additional risks.

#### ***Paragraph 6 of the Audit Opinion - Naftex Petrol EOOD 2010 Accounts***

The qualification in paragraph 6 of the audit opinion relates to the purchase by Naftex Petrol of shares in Petrol AD traded on the Bulgarian Stock Exchange (the "BSE"), presented as of 31 December 2010 and 31 December 2009 as current financial assets of BGN 363,645,000 and BGN 319,331,000, respectively, and the recognised gain for 2010 and loss for 2009 from transactions with financial assets of BGN 44,314,000 and BGN 183,509,000, respectively. These result from the valuation of the shares at market price as of the date of the statement of financial position and dealing throughout the year. In addition, after the reporting date Naftex Petrol recorded an impairment loss on these current financial assets amounting to BGN 54,455,000. As the volume of shares traded on the BSE, excluding transactions between related parties, is relatively insignificant in relation to the total volume of purchased shares, the prices used may not be representative for the purposes of measuring the investment to fair value and the reported results from their valuation and dealing in 2010 and 2009. The auditors were unable to satisfy themselves through other independent sources whether the current financial assets as of 31 December 2010 and 31 December 2009, the resulting gain for 2010 and loss for 2009, and the related effects and disclosures thereon are fairly presented in the financial statements.

#### **Emphasis of Matters**

#### ***Paragraph 9 of the Audit Opinion – Petrol AD 2010 Accounts***

The emphasis of matter in paragraph 9 of the audit opinion relates to the unsecured interest-bearing loans of BGN 124,743,000 granted by the Group to Petrol Holding AD and the amount of receivables on loans granted to related parties, which as of 31 December 2010 represented 23 per cent. of the Group's assets and exceeds its liquidity. This causes a significant concentration of credit and liquidity risk. Therefore, both the maintenance of the Group's liquidity and the impairment losses directly depend on the ability of the Group's counterparties to pay their obligations under the contractual terms and conditions of the loans.



***Paragraph 10 of the Audit Opinion – Petrol AD 2010 Accounts***

The emphasis of matter in paragraph 10 of the audit opinion relates to the debenture loan and bank loans, amounting to BGN 242,844,000, which are due to be repaid in 2011. As a result of the global financial and economic crisis, different industries and sectors in the Bulgarian economy have declined and caused a deterioration of the business environment in which the Group operates. In addition, there are several pending legal proceedings between the shareholders of Petrol Holding AD and Petrol Holding AD. These could result in reduced opportunities for financing the activities of the companies within the Group. As of the date of preparation of the consolidated financial statements, the Group's management was in the process of negotiations regarding various options for refinancing the debenture issue and was considering several proposals from international and local institutional investors. These circumstances may have caused uncertainty and cast significant doubt over the Group's ability to continue its operations as a going concern. The consolidated financial statements contain no adjustments that might have been necessary if the going concern assumption had been applied and the audit opinion is not modified in respect of this matter.

## BUSINESS

### Business Overview

The Group is one of the major fuel distributors in the oil market in Bulgaria. At the end of 2010 the Petrol Group comprised the Issuer, ten subsidiaries and two special purpose entities (see "*Corporate Structure—Group Structure*"). The main activities of the Group include wholesale and retail trading and storage of fuels and petroleum products. Besides its core activities, the Group also performs transportation of fuels, repair and maintenance of fuel stations and fuel storage facilities. The Group owns at present a well developed network for distribution of petroleum products in both wholesale and retail markets, and it is among the biggest owners of available capacity for storage of fuels and petroleum products in Bulgaria.

In 2010, the trend from the last few years of intensifying competition in the fuel sector continued. The main reason for this was the reduction in fuel consumption, which is usually consistent with the variation of GDP, and is a direct consequence of the economic slowdown. As a result of this, there was a reported double-digit decrease in domestic consumption in 2010. The drop was mainly due to the decrease in sales to corporate clients, which were affected by the worsening economic activity and the higher criteria of the oil companies in signing contracts for commodity credit. Shrinking consumption led to decline in sales of the leading players and small independent players, some of which were forced to drop out of business or to sign franchise/dealership arrangements with the major companies in the sector. This led to additional consolidation of the market and shrinkage of the market share of the small independent players to 19 per cent. of the retail market.

As of 31 December 2010 the Group's retail trade network includes 371 petrol stations spread throughout the territory of the country. The Group's wholesale sales are made through a network of own storage facilities. As of 31 December 2010 the Group owns 80 fuel storage facilities situated on a total area of 3,215 thousand m<sup>2</sup> with total tank capacity of 1,197 thousand m<sup>3</sup>.

For the year ended 31 December 2010, the Group had sales of BGN 1,225.7 million (EUR 626.7 million) compared with BGN 1,024.0 million (EUR 523.6 million) for 2009. The Group's gross profit for the year ended 31 December 2010 was BGN 115.3 million (EUR 59.0 million) compared with BGN 98.4 million (EUR 50.3 million) for 2009. As of 31 December 2010, the Group's total assets were BGN 558.9 million (EUR 285.8 million), total equity and reserves were BGN 38.9 million (EUR 19.9 million), net debt (debt minus cash and cash equivalents) was BGN 276.3 million (EUR 141.3 million) and earnings before interest, tax, depreciation and amortisation ("**EBITDA**") BGN 42.9 million (EUR 21.9 million).

The address of the Issuer is 43 Cherni Vrah Blvd, Sofia 1407, Republic of Bulgaria and its telephone number is +359 24960307. The address of the Guarantor is 22A Bratya Miladinovi Str., Varna 9000, Bulgaria and its telephone number is +359 52669612.

### Recent Developments

After the privatisation procedure of the Issuer in 1999, a vast investment program was started, as a result of which a significant number of retail stations were reconstructed and modernised. During the last two years, 14 trade sites were modernised. The appearance of all sites was changed and in 8 sites the tanks were replaced with new ones. Systems for collection of vapour emitted during unloading of fuels and their return in the tanker trucks in 67 of the retail trade sites were renewed. As of 31 December 2010, 184 of the sites were reconstructed into modern European style. All kinds of unleaded gasoline and Euro diesel are sold in all trade sites, LPG is offered in 149 of the petrol stations. During the last year modules for sale of CNG have been built in three fuel stations. The sites also offer the full range of Bulgarian and imported motor and transmission lubricants, brake and antifreeze fluids, automobile cosmetics, spare parts and accessories. In addition, the newly built and reconstructed sites have fast-food places and some provide internet access to customers. Most of the stores at the sites offer more than 4,000 items of leading Bulgarian and world producers of food, personal cosmetics, gifts, accessories, newspapers, magazines and others. In many sites additional facilities were provided such as car washes, inspection/service pits, pits for dismounting, mounting and balance of tyres and other auto services.

In the last few years, the Group continued to invest in technical renovation and increasing its commercial capacities. The major part of the capital expenditure was used in further developing its fuel storage activity. In order to implement its investment programme and to develop its storage activity, in 2010 and 2011 the Group continued modernisation of FSF Plovdiv. This is equipped with internal floating roofs in

compliance with the Ordinance No 16 on the Control of Volatile Organic Compound Emissions Resulting from the Storage, Loading and Unloading, and Transportation of Gasoline, automated measuring systems, pump stations and industrial railway branch lines. Part of the fuel storage facility will be divided into a separate licensed tax warehouse under the EDTWA intended for storage of fuels under the MSCOPPA. In addition, in 2010 scheduled tanks repairs at FSF Kaspichan and FSF Pleven were carried out in fulfillment of Ordinance No 16. In compliance with the requirements of Ordinance No 3 for specific requirements and control by the customs authorities of the means of measurement of excise goods, in 2010 the Group fitted automated measurement and level measuring systems in tax warehouses in Ruse, Pleven, Burgas and Varna, which through an integrated information system provide data to the information system of the Customs Agency.

As a result from the modernisation and the planned upgrades of the fuel depots in Plovdiv, Kaspichan and Pleven in 2010 and early 2011, the Group has increased its total registered storage capacity in compliance with the MSCOPPA up to 314,000 m<sup>3</sup>.

## **Strategy**

The Group's main strategic objective is to maintain and to develop its leading position in the Bulgarian retail and wholesale fuel distribution market. To achieve this strategic goal, a long-term strategy has been adopted, which includes several key elements:

- Increasing the efficiency of existing assets;
- Optimising and expanding the retail distribution network;
- Expanding the product range;
- Strengthening and increasing the market presence;
- Developing the fuel storage business line.

### ***Increasing the efficiency of existing assets***

The Group will continue investing in modernisation and reconstruction of the existing trade sides included in the retail and wholesale distribution networks. The budgeted investment will be focused not only on improving the technical condition and appearance of trade sites, but also on reducing technological losses from operation of equipment and compliance with environmental requirements.

### ***Optimising and expanding the retail distribution network***

The Group intends to continue expansion of the retail distribution network. This will be achieved by opening new sites on new locations and by consolidation of the Group's smaller independent competitors through franchise/dealership arrangements. At the same time the process of optimising the distribution network will continue to be aimed at identifying unprofitable sites, suspending their operations and eventually selling them.

### ***Expanding the product range***

The Management of the Group places a high priority on being at the forefront of customer demand for cleaner and improved performance fuels. To achieve this the Group plans to increase its sales of compressed natural gas (CNG). Since 2009, the Group has offered a full range of branded Force Fuels – Blue Force Gas, 96 Extra Force and Pro Force Diesel. The innovative fuels contain additives, which accelerate power of automobiles, reduce expense by up to 10 per cent. by improving system efficiency, decrease carbon deposits in the fuel system and the discharge of harmful emissions (CO<sub>2</sub>, CO, NOX) by approximately 70 per cent. The Group also intends to develop and launch a set of special motor lubricants to protect automobiles and the environment.

Furthermore, the Group intends to expand its product range by offering non-petroleum products and services to attract new customers and generate additional profit for trade sites. The additional services include rental of a part of the commercial areas (for example car-washes and billboards), insurance and providing internet access.

### ***Strengthening and increasing market presence***

The Group plans to continue development of loyalty programs for retail customers. By increasing advertising of the newly offered products and services under the Petrol brand, the Group aims to strengthen the image of the Issuer as an innovative company working to care for the customer, society and the environment.

Regarding the wholesale trade, the strategic goal is the increase of market share of the Group by achieving a continuous growth in volume of sales by increasing the volume of fuels sold to existing and new customers. For this purpose the Group largely relies on the quality of offered fuel. Various facilities to provide convenience to the customer were worked out such as electronic ordering and information, transportation of the products to the customer's warehouse, a possibility to defer payment and cash payment at the fuel storage facilities immediately prior to dispatch. In addition, the Group provides complex services such as fuel storage, tanker handling and laboratory analyses.

### ***Developing the fuel storage business line***

The Group is planning to capitalise on the opportunity provided to it by its dominant position in fuel storage capacity and the increased storage requirements imposed on Bulgarian producers and importers by the implementation of EU Stock Directives 68/414/EU and 98/93/EU through the MSCOPPA. The Group's strategy for exploiting this opportunity includes organising and conducting marketing campaigns among existing and potential customers to execute long-term storage contracts for storage of petroleum products, the gradual reconstruction and operation of old fuel tanks, investing in key centralised storage capacity and licensing of additional fuel tanks.

### **History**

The origins of Petrol AD as a supplier of petroleum products date back to 1 April 1932 when the predecessor of the Company was incorporated as a joint stock company under Bulgarian law. Initially, the company used the warehouse facilities of one of its shareholders and gradually over time the company invested in the construction of its own facilities. In 1947, the Bulgarian government nationalised the Bulgarian petrol industry and the Bulgarian parliament created a state monopoly through the passage of the Law on the State Monopoly on Petrol Products in February 1948. The following month, the assets of a number of private companies were amalgamated to form a state owned petrol supply monopoly. During the period after nationalisation, the petrol supply monopoly gradually expanded its operations, with petrol stations and storage facilities being constructed throughout Bulgaria. In 1986, the petrol supply monopoly was restructured to form a part of the Chimsnab chemical products monopoly.

In January 1987, Kombinat Petrol, a legal entity wholly owned by the Bulgarian state was created pursuant to a resolution of the Economic Council of the Council of Ministers of the Republic of Bulgaria. In 1990, the business was restructured and reorganised pursuant to Article 11(2) of Decree No. 56 and was incorporated on 14 March 1990 as a state owned company, registered with the Sofia City Court under company court file number 1358/1990. In July 1992, the retail fuel supply monopoly was transformed into Petrol EAD, a joint stock company wholly owned by the state pursuant to Order No. 101 dated 16 September 1992 of the Council of Ministers and was registered at the Sofia City Court on 11 November 1992 under court file number 26694/1992. During the period from 1992 to 1997, approximately 25 per cent. of Petrol's share capital was distributed to privatisation funds and private individuals as part of the Bulgarian government's voucher privatisation policy.

As part of this policy, Petrol EAD was re-registered as Petrol AD, a joint stock company, on 10 June 1997 and, on 1 July 1998 was registered as a public company in the Public Register of the Financial Supervision Commission, its registration number being RG05282. Following a two year privatisation process, in 1999 a 51 per cent. stake in Petrol AD was sold by the Bulgarian government to International Consortium Bulgaria AD (which was subsequently renamed Naftex Petrol), a consortium comprising Naftex Bulgaria Holding AD, a company engaging in oil trading, OMV AG, an oil and gas group and Petrol Holding Group AD, a company established by former members of the management of Petrol AD.

In 2001, Naftex Bulgaria Holding AD acquired the interests of the other members in the consortium. The consideration for the acquisition included the sale by Petrol AD of 25 retail stations to OMV, who remain one of the Group's competitors in Bulgaria (see "*Business – Competition – Retail Market*"). One of the obligations imposed on the Company at the time of its privatisation was that the Company establishes an

investment programme under which U.S. \$60 million (EUR 48.4 million) of certain recognised investments would be made between 2000 and 2004. The Company has since satisfied this obligation. In December 2003, Naftex Bulgaria Holding AD was renamed Petrol Holding AD.

In 2004, the Post-privatisation Control Agency confirmed that in 2003 Petrol Holding AD has over fulfilled by USD 11 million its obligations under the agreement for privatisation of Petrol AD (it became the obligated party after the acquisition of the shares held by the initial acquirer Naftex Petrol EOOD).

In 2005, a long-term strategic programme for streamlining of the oil distribution business was approved by the shareholders of the Issuer. It included separating the ownership and management of retail and wholesale distribution assets, reducing excessive distribution capacity, disposal of non-core assets and outsourcing of non-core activities, implementation of technology-based productivity improvements, further investments in retail network expansion and modernisation, expanded product offering and development of the Petrol brand. The envisaged restructuring process began with the transfer of the title to the main part of the Issuer's storage depots to Naftex Petrol EOOD through a non-monetary contribution to a subsidiary's capital amounting to BGN 53 million (EUR 27 million).

In 2006, following the expiry of the wholesale supply agreement with Lukoil Bulgaria, Naftex Petrol EOOD discontinued purchasing oil products from the local refinery and started importing. This led to significant changes in its pricing strategy (based on international quotations only and no longer on Lukoil's refinery EXW prices). In October 2006, Issuer issued EUR 100 million guaranteed notes listed on the London Stock Exchange. The proceeds from the issue were used for refinancing of the existing bank debt, financing of the Group's capex programme and for working capital. After the bond issue, a major restructuring process was started with regard to internal and external debt.

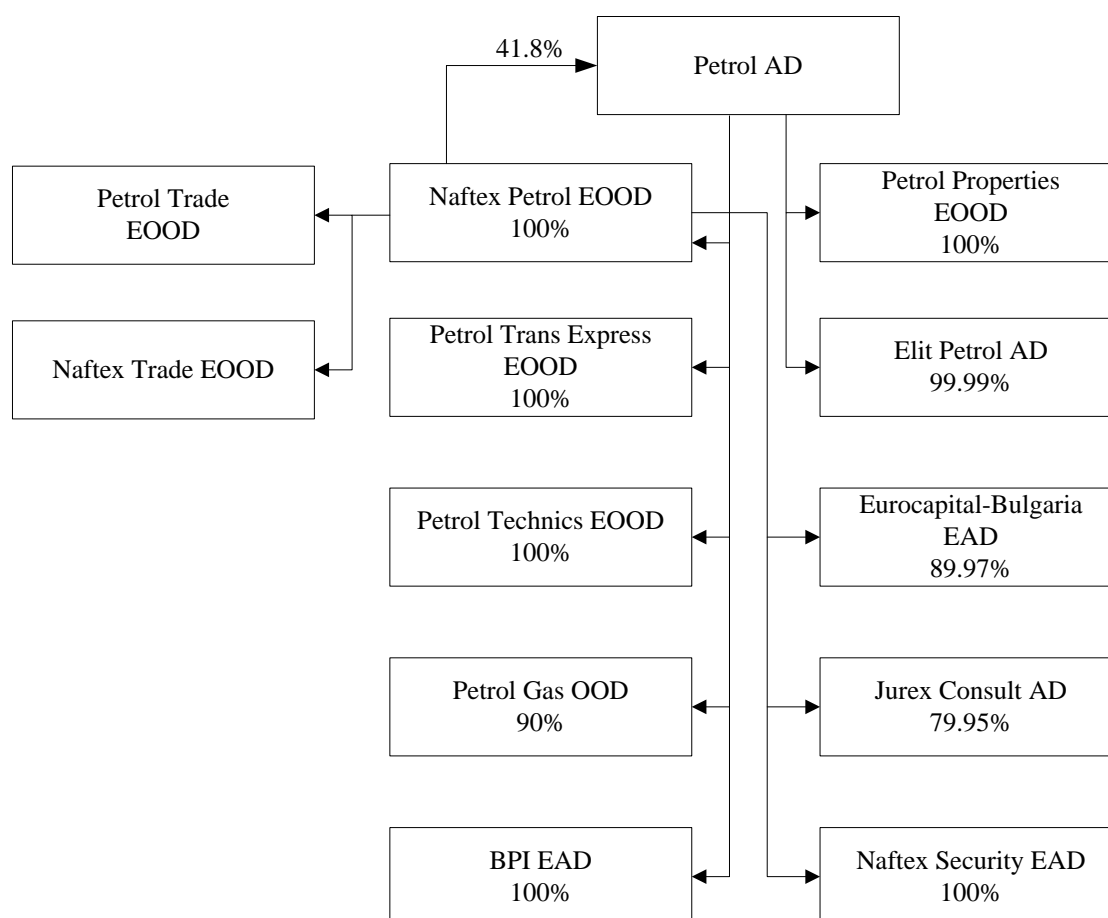
In 2007, a new subsidiary was established - Petrol Gas OOD (wholesale trade with LPG).

In 2009, following the expiry of the post-deal wholesale supply agreements with Lukoil Bulgaria, Naftex Petrol EOOD started rechanneling all of its wholesale supplies through import from foreign refineries.

## Corporate Structure

### Group structure

As of 31 December 2010 the Group consists of 10 subsidiaries and 2 special purpose entities:



- Naftex Petrol EOOD is a solely owned limited liability company incorporated under the laws of Bulgaria and registered at the Varna District Court under company court file 3464/2003. The company is one of the leading participants on the wholesale market of fuels and petroleum products in Bulgaria. As of 31 December 2010 Petrol AD owns 100 per cent. of the issued share capital of Naftex Petrol EOOD. Naftex Petrol EOOD has controlling participation in 89.97 per cent. of the capital of Eurocapital-Bulgaria EAD, acquired by means of an in-kind contribution of assets at the end of 2007, as well as participation in 79.95 per cent. in the capital of Jurex Consult AD. As of 31 December 2010, Naftex Petrol EOOD is the sole owner of Naftex Security EAD;
- Petrol Trans Express EOOD is a solely owned limited liability company, incorporated under the laws of Bulgaria and registered at the Burgas District Court under company court file number 3203/2000, which specialises in fuel transportation. The company transports fuels to Petrol AD's network of trade sites as well as to the other customers of Naftex Petrol EOOD and Petrol Gas OOD. As of 31 December 2010, Petrol Trans Express EOOD is wholly owned by Petrol AD;
- Petrol Technics EOOD is a solely owned limited liability company, incorporated under the laws of Bulgaria and registered at the Sofia City Court under company court file number 3671/2001, which specialises in construction, maintenance and servicing of fuel stations and fuel storage facilities owned and managed by the Group. As of 31 December 2010, Petrol Technics EOOD was wholly owned by Petrol AD;
- Petrol Gas OOD is a limited liability company, incorporated under the laws of Bulgaria and registered at the Sofia City Court under company court file number 7833/2007, which specialises

in wholesale trade with LPG. As of 31 December 2010, Petrol AD owns 90 per cent. of the issued share capital of Petrol Gas OOD;

- Petrol Properties EOOD is a solely owned limited liability company incorporated under the law of Bulgaria and registered at the Sofia City Court under company court file 20902/2007, which specialises in trade with movable property and real estates. As of 31 December 2010, Petrol Properties EOOD was wholly owned by Petrol AD;
- Elit Petrol AD is a joint-stock company incorporated and registered at the Registry Agency in November 2008. The company specialises in the management, running and renting of real estate. In 2010, Elit Petrol AD finished a procedure for increasing its share capital by a payment in-kind contribution of 196 petrol stations. As of 31 December 2010, Petrol AD owns 99.99 per cent. of its share capital;
- BPI EAD was registered in Sofia District Court in 1997. As of 31 December 2010, the sole owner of the company's share capital is Petrol AD. The company is the owner of the administration building, situated on Cherni Vrah Blvd, 43 in Sofia;
- Eurocapital-Bulgaria EAD is a company owning a number of real estate properties. Among them are the hotel complex Interhotel Bulgaria in Burgas and the administration building in Varna. As of 31 December 2010, the share capital of the company is owned by Naftex Petrol EOOD (89.97 per cent.) and Petrol Holding AD (10.03 per cent.);
- Naftex Security EAD was registered in Sofia in 2001 as a solely owned limited liability company and became a solely owned joint-stock company in 2003. As of 31 December 2010, the sole owner of Naftex Security EAD is Naftex Petrol EOOD;
- Jurex Consult AD is a joint-stock company registered in Sofia District Court in 2001. The company specialises in providing legal services, management and consulting. As of 31 December 2010, Naftex Petrol EOOD owns 79.95 per cent. of the company's share capital;
- Petrol Trade EOOD is a solely owned limited liability company incorporated under the laws of Bulgaria and registered in Sofia in 2001, which specialises in wholesale trade with crude oil and petroleum products. As of 31 December 2010 the share capital of the company is solely owned by Petrol Holding AD. Since October 2009, Petrol Trade EOOD has operated as a special purpose entity, specialising in the import of fuels, and is controlled by Naftex Petrol EOOD. Therefore, in compliance with the applicable accounting standards, the company's financial statements are consolidated in the Group's consolidated financial statements (see also note 36 to the consolidated financial statements);
- Naftex Trade EOOD is a solely owned limited liability company incorporated under the laws of Bulgaria and registered in Sofia in 2009, which specialises in wholesale trade with crude oil and petroleum products. As of 31 December 2010 the share capital of the company is solely owned by Petrol Holding AD. Since its foundation, Naftex Trade EOOD has operated as a special purpose entity, specialising in the import of fuels and is controlled by Naftex Petrol EOOD. Therefore, in compliance with the applicable accounting standards, the company's financial statements are consolidated in the Group's consolidated financial statements (see also note 36 to the consolidated financial statements).

## **Sales**

The Group offers a wide range of petroleum products in Bulgaria, including LPG, jet fuel, various grades of gasoline, diesel fuel oil, heating oil, lubricants and antifreeze to both the retail and the wholesale market. For the year ended 31 December 2010, the Group achieved total sales of BGN 1,225.7 million (EUR 626.7 million). By comparison, for the year ended 31 December 2009 the Group achieved total sales of BGN 1,024.0 million (EUR 523.6 million).

### ***Retail market***

The Group's retail sales are made through a network of retail stations owned and/or operated by the Issuer. These retail stations are spread throughout the country giving the Group comprehensive geographic

coverage. As of 31 December 2010 the Group operated 371 working retail stations (2009: 392 retail stations).

The results for the period 2008-2010 and the nine months ended 30 September 2011 are as follows:

		Year ended 31 December			Nine months ended 30 September
		2010	2009	2008	2011
Volume of retail sales (million litres).....		293	323	391	205
<i>incl. corporate clients</i> .....		84	100	128	57
Revenue from retail sales .....	BGN mln	475.4	441.8	658.8	368.2
	EUR mln	243.1	225.9	336.8	188.3
Market share <sup>1</sup> .....		15 per cent.	15 per cent.	16 per cent.	15 per cent.

<sup>1</sup> Source: Internal corporate information

During the last few years a decreasing trend is observed in retail sales volumes. This negative trend is due to the reduced consumption of fuels caused by the deepening economic crisis in the country. Evidence for this is the fact that despite the reduction in volumes by 9 per cent. in 2010 the Group keeps unchanged its relative share of sales in the retail fuel market. Despite the decrease in the sales volumes, the growth in the average selling prices in 2010 entirely compensated for the negative impact of the drop in sales. In 2010 the Group reported an increase in revenue from retail sales of fuels of 8 per cent.

The following table sets out the number of retail stations operated by the Group, the ownership of those sites and the volume of fuel sold in 2010 and 2009 and the nine months ended 30 September 2011:

	Year ended 31 December				Nine months ended 30 September	
	2010		2009		2011	
	number of sites	million litres	number of sites	million litres	number of sites	million litres
Group owned and Group operated .....	188	192	190	216	186	134
Franchisee operated .....	70	33	83	36	68	23
Group owned and dealer operated.....	113	68	119	71	110	48
<b>Total</b> .....	<b>371</b>	<b>293</b>	<b>392</b>	<b>323</b>	<b>364</b>	<b>205</b>

In 2010, the Group continued developing its franchise programmes (joining independent owners of single stations or small chains of stations under the Petrol trade mark) and also leased its own retail stations for operation by dealers. At the same time the Group takes measures aiming at reorganising the retail network, including suspension of operations and sale of unprofitable sites, termination of franchise and dealership contracts with inappropriate partners and concluding agreements with new counterparties on the same franchise and dealership programmes.

The following table sets out the Group's retail sales of fuel by major types of oil product for the period 2008-2010 and the nine months ended 30 September 2011:

		Year ended 31 December			Nine months ended 30 September 2011
		2010	2009	2008	
Gasoline 95° .....	BGN mln	169.3	167.7	250.8	129.5
	EUR mln	86.6	85.8	128.2	66.2
Gasoline 96 Extra Force* .....	BGN mln	21.7	19.8	5.0	14.6
	EUR mln	11.1	10.1	2.6	7.5
Gasoline 98* .....	BGN mln	3.4	4.2	13.0	2.4
	EUR mln	1.7	2.1	6.6	1.2
Blue Force LPG .....	BGN mln	43.5	37.9	58.1	33.7
	EUR mln	22.2	19.4	29.7	17.2



		Year ended 31 December			Nine months ended
		2010	2009	2008	30 September 2011
Pro Force Diesel oil .....	BGN mln	236.6	211.3	331.1	187.1
	EUR mln	121.0	108.0	169.3	95.7
	BGN mln	0.9	0.9	0.8	0.9
Other fuel.....	EUR mln	0.5	0.5	0.4	0.5
	<b>BGN mln</b>	<b>475.4</b>	<b>441.8</b>	<b>658.8</b>	<b>368.2</b>
<b>Total retail sales of fuel*</b> .....	<b>EUR mln</b>	<b>243.1</b>	<b>225.9</b>	<b>336.8</b>	<b>188.3</b>

\* 95, 96 and 98 octane unleaded fuel.

As in previous years the sale of diesel oil generated approximately 50 per cent. of total fuel sales. This is a result of the widespread use of diesel in the transportation industry and the growth in consumption. In 2010 the revenue from sales of the lower grade gasoline 95 made up 36 per cent. of total sales. In 2010, the Group reported growth in revenue from sales of all fuels except gasoline 98 and CNG. The highest growth of 15 per cent. in revenue came from sales of Blue Force LPG, reflecting the increase of 27 per cent. in average selling prices. In 2010, the revenue from sales of Pro Force diesel grew by 12 per cent. which is also due to the overall upward trend in fuel prices. After the introduction of gasoline 96 Extra Force on the Bulgarian market at the end of 2007, this branded fuel gradually became more popular and its sales increased by an additional 10 per cent. between 2009 and 2010.

### Wholesale market

The Group's wholesale sales are made through a network of storage facilities operated by the subsidiary Naftex Petrol EOOD as well as by Petrol Gas OOD, a subsidiary established in 2007 which specialises in trade with LPG. During 2010 the Group used 12 of its storage facilities for own trade activities and 2 other facilities were leased out to third parties. Petrol Gas OOD operates a fleet of 49 rail tank cars for transportation of LPG and has total gas storage capacity of 1,000 m<sup>3</sup>.

The table below sets out the result of the period 2008-2010 and the nine months ended 30 September 2011:

		Year ended 31 December			Nine months ended
		2010	2009	2008	30 September 2011
Volume of wholesale sales (million litres) <sup>1</sup> .....		466	409	350	376
Volume of wholesale sales (thousand tonnes) <sup>2</sup> .....		33	58	79	0.9
Revenue from wholesale sales .....	BGN mln	702.0	532.4	660.2	657.9
	EUR mln	358.9	272.2	337.6	336.4
Market share <sup>3</sup> .....		20 per cent.	20 per cent.	17 per cent.	20 per cent.

<sup>1</sup> Wholesale volumes for all types of gasoline, diesel and gas oil are measured in litres.

<sup>2</sup> Wholesale volumes for jet, LPG, heating oil and other heavy fuels are measured in tonnes.

<sup>3</sup> Source: Internal corporate information

In 2010, the sales of light fuels rose by 57 million litres compared to the previous year. The increase in sales is due entirely to the growth in sales of diesel fuel (23 per cent.), which compensates for the decline in sales volumes of gas oil (29 per cent.) and gasoline 95 (5 per cent.). The growth in sales of diesel fuel in 2010 is due mainly to the higher sales volumes to the key wholesale clients. As a result, in 2010 the Group realised the highest sales over the last five years and the total light fuels volume sold on the wholesale segment increased by 14 per cent. to 466 million liters. In 2010, the revenue from wholesale sales of fuels increased by 32 per cent. to BGN 702.0 million (EUR 358.9 million).

The increase is due to the higher average selling prices caused, firstly, by the higher average prices on the international markets, and secondly by the change in the commercial policy of the only producer in the

country, Lukoil Neftochim Burgas AD, by which sector pricing is traditionally bound. Despite the significant increase of fuel sales to third parties in 2010, the decline in sales to related parties caused the Group's market share to fall to approximately 20 per cent.

In 2010, the Group's wholesale sales of LPG were wholly made by the subsidiary Petrol Gas OOD. During the same year the Group reported a decrease of 37 per cent. in sales volumes of LPG.

The following table sets out Group's wholesale sales revenue by major types of petroleum products for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011:

		Year ended 31 December			Nine months ended 30 September 2011
		2010	2009	2008	
Gasoline A-95H .....	BGN mln	118.1	104.1	118.1	158.0
	EUR mln	60.4	53.2	60.4	80.8
Jet A1 .....	BGN mln	0.1	3.1	44.4	0.0
	EUR mln	0.1	1.6	22.7	0.0
Diesel oil .....	BGN mln	526.7	358.2	401.5	495.1
	EUR mln	269.3	183.2	205.3	253.1
Gas oil .....	BGN mln	17.4	21.5	45.8	3.3
	EUR mln	8.8	11.0	23.4	1.7
Heating oil .....	BGN mln	5.0	4.2	15.8	0.1
	EUR mln	2.6	2.1	8.0	0.1
LPG .....	BGN mln	30.1	31.9	20.7	1.2
	EUR mln	15.4	16.3	10.6	0.6
Other fuel .....	BGN mln	4.6	9.4	13.9	0.2
	EUR mln	2.3	4.8	7.2	0.1
		<b>BGN mln</b>	<b>702.0</b>	<b>532.4</b>	<b>660.2</b>
		<b>EUR mln</b>	<b>358.9</b>	<b>272.2</b>	<b>336.4</b>
<b>Total wholesale sales of fuel .....</b>		<b>EUR mln</b>	<b>358.9</b>	<b>272.2</b>	<b>336.4</b>

In 2010, the Group reported a decrease of 6 per cent. in the revenue from sales of LPG. The decline of LPG sales is due to the above mentioned drop in sales volumes, despite the increase in the average selling price by 49 per cent., compared to 2009. The revenue from wholesale sales of diesel fuel increased by 47 per cent., which is due to the growth in sales volumes by 23 per cent., as well as to the higher average selling prices. Despite a fall by 5 per cent. in sales volume of gasoline 95 and heating oil by 18 per cent. in 2010, the Group reported an increase in revenue from sales due to the higher prices. The decrease in sales of jet oil is due to the termination in 2009 of aircraft refuelling activities.

## Storage

One of the Group's key competitive strengths is the Group's storage facilities and distribution infrastructure, which are spread throughout Bulgaria giving the Group comprehensive access throughout the country. The Group owns 80 storage facilities for petroleum products which were originally constructed to accommodate the strategic storage of petroleum products and crude oil during the Cold War period. The capacity of these storage facilities greatly exceeds the current demand in Bulgaria.

Currently the Group uses 12 of these facilities, 2 facilities were leased out to third parties and the remaining facilities belong to the group of so-called "reserve storage facilities". As of 31 December 2010, four of the operated fuel storage facilities have the status of tax warehouses according to the EDTWA, which provides opportunity for temporary suspension of excise duty taxation if certain conditions are observed. In addition, at the end of 2010 the Group held licenses under the MSCOPPA for storage of diesel oil, gasoline, heating oil and aviation fuel in tanks of 7 storage facilities with total capacity of 174 thousand m<sup>3</sup>. The Group also owns and operates three port facilities, located on the Black Sea and the River Danube.

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

Fuel storage facility	Gasoline	Industrial gas oil	Diesel fuel	Heating oil	Total
Burgas .....	10,000	-	15,000	-	25,000
Varna .....	10,000	-	25,000	-	35,000

Ruse .....	1,000	2,000	21,000	-	<b>24,000</b>
Kaspichan.....	7,000		12,000	-	<b>19,000</b>
Pleven.....	25,000	2,000	20,000	-	<b>47,000</b>
Plovdiv .....	5,000	-	10,000	-	<b>15,000</b>
Stara Zagora .....	2,000	-	2,000	5,000	<b>9,000</b>
<b>Total .....</b>	<b>60,000</b>	<b>4,000</b>	<b>105,000</b>	<b>5,000</b>	<b>174,000</b>

At the beginning of 2011, new capacity in Plovdiv fuel storage facility was registered – 40,000 m<sup>3</sup> of gasoline and 100,000 m<sup>3</sup> of diesel fuel. Currently, the Company has total registered capacity of 314,000 m<sup>3</sup> under MSCOPPA.

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

### **Distribution Facilities**

As of 31 December 2010, the Group operates the largest fuel transportation fleet in Bulgaria. The totally renewed fleet includes 36 tanker trucks with capacity to transport 780 thousand litres of light fuels and 180 thousand litres of LPG and complies with the latest European requirements for transport of dangerous loads and environmental protection. Besides the trade in liquid fuels, the Group imports and carries wholesale trade in the country and abroad with LPG and at the end of 2010 the Group operated a fleet of 49 rail tank cars and one depot for storage of LPG.

### **Competition**

In 2010, six major companies dominated the retail market – Lukoil Bulgaria EOOD, Petrol AD, OMV Bulgaria EOOD, Shell Bulgaria EAD, Eko Bulgaria EAD and Rompetrol Bulgaria AD. The absence of strategic deals led to insignificant change in the market shares of the leading players. In 2010, the wholesale market followed the trend and volatility of crude oil prices on international markets. The dominating influence of the only fuel producer in the country remained, despite the observed increase in the imported volumes by the other market players. The main companies operating on the wholesale fuel market in Bulgaria are Naftex Petrol EOOD, Rompetrol Bulgaria AD, OMV Bulgaria EOOD and Lukoil Bulgaria EOOD as an exclusive distributor of the product of Lukoil Neftochim Burgas AD.

### **Information Technology**

#### ***SAP/R3 enterprise resource planning system***

The Group employs the SAP/R3 enterprise resource planning system designed by SAP AG. This system combines all of the Group's departments and functions under a single, integrated software programme using a single database. The introduction of the enterprise resource planning system has enabled the Group to replace various standalone computer systems which were employed throughout the Group, such as for inventory, finance and human resources purposes, and replace them with a single unified software programme divided into software modules. Each software module is inter-linked, facilitating information sharing across the Group.

To date, the Group has implemented several SAP functional modules: SAP Financial Accounting, SAP Controlling, SAP Treasury, SAP Fixed Assets, SAP Material Management, SAP Sales and Distribution and SAP Customer Services. These modules support all of the Group's back-office and administration processes. In addition, the SAP Industry Solution for Oil & Gas provides support for petroleum products related business processes. In the last few years, the Group has also introduced three further SAP functional modules: SAP Human Resources, to manage all the Group's processes for personnel administration, recruitment and organisational management; SAP Project System, to manage the Group's investment projects and assist in controlling overheads, and; SAP Business Warehouse, to gain analytical information for all the Group's retail processes, as well as the industry solution SAP Retail, so as to optimise the management of the Group's network of retail stations.

## Quality Control

The quality of the offered fuels is guaranteed by 4 laboratories, where with the help of modern technologies, the strict control and quality analysis of fuel and petroleum products are carried out. The laboratory in Varna is licensed to perform examinations on a state level and is thus able to provide internationally acknowledged certificates. The Group's retail stations are tested 4 to 6 times annually by experts in fuel quality. The activities of the Group concerning fuel trade and transport are subject to strict controls regarding the ecological requirements for environmental protection. The Group continues to invest in the construction and renewal of systems for collection and recovery of vapours (VRU) in the retail stations and storage facilities under the requirements of Ordinance No 16. In 2010 such installations were fitted at FSF Kaspichan and FSF Pleven.

In addition to the quality control procedures carried out in the laboratories, internal inspections are carried out at the petrol stations at least six times per year. Government inspections to verify the accuracy of the fuel dispensers are carried out twice per year and metrology specialists carry out inspections of the calibration of storage tanks every three months. Diagnostic equipment used at the retail stations, storage facilities and laboratories is also subject to compulsory state inspections. The frequency of internal inspections to ensure high standards of appearance and customer service varies, with the retail stations with the highest throughput being inspected on a daily basis and smaller sites being inspected every ten days.

## Employees

The Management believes that the employees of the Group play a key role in the development of the business and the achievement of common corporate goals and consequently pays special attention to the development of general strategy and policies regarding human resources management. The policies in this field are aimed towards achieving responsibility and commitment from the personnel during the performance of assigned tasks and goals. Simultaneously, the senior executive staff make efforts to support the mid-level management and the employees in order to fulfill the Group's Management priorities.

The goals of the human resources development strategy and policies are:

- Retaining employees with strong potential and assisting their professional growth by planning their careers and introducing a bonus package;
- Selecting new employees with significant potential and a result-oriented personality;
- Broadening the scope of the traineeship programmes;
- Improving communications between the separate organisational bodies;
- Developing and introducing new systems for career management of the key employees;
- Developing a programme for training newly employed personnel.

The Group applies certain criteria for selection of personnel and has a professional and motivated team capable of pursuing defined strategic and operational goals. The Group invests in its employees by offering them programmes for training and development in the necessary professional and management skills. The Group's policy is to provide safe and healthy work conditions, adequate remuneration and motivation and opportunities for professional growth.

The number of payroll staff has decreased significantly during the last few years. In 2006 and 2007 the decrease was mainly due to the fact that the Issuer sold its shares in a number of subsidiaries, in 2008 and 2009 the drop is explained to a great extent by the sale of a part of certain trade sites (see also *Operating and Financial Review – Results of Operations – Key Operating Expenses – Staff costs*).

In 2010 the number of employees rose by 330 (17 per cent.) to 2,254 employees, primarily reflecting the acquisition of new companies by the Issuer. Most of the employees worked for the Issuer (1,518 employees). Among the other companies in the Group, those with the largest number of staff by the end of 2010 were Naftex Petrol EOOD (285 employees) and Naftex Security EAD (271 employees).

## **Legal Proceedings**

In May 2011, a claim was filed in the Varna County Court by Rompetrol Bulgaria AD against Naftex Petrol EOOD. The claim relates to non-performance by Naftex Petrol EOOD under a commercial contract for delivery of petroleum products signed in June 2005. The total amount of the claim is BGN 9,129 thousand (EUR 4,668 thousand), including penalty interest due for delay of payment. As of the date of this Prospectus, the exchange of documents related to the case has been completed and the parties are waiting for a date for the court hearing.

In January 2010, as a result of a finalised tax audit, the amount of BGN 6,012 thousand (EUR 3,074 thousand) was paid to the National Revenue Agency. The Group is in the process of appealing the conclusions of the tax audit. Management of the Group consider that it is highly probable that the appeal will be successful and therefore no provision in accordance with IAS 37 (Provisions, contingent liabilities and contingent assets) has been accounted for in the consolidated financial statements.

## **Environmental Matters**

Following its privatisation in 1999, Petrol AD started to implement an investment programme aimed at bringing the Group's facilities in line with the requirements of the best environmental practices in the EU. The Group's operations include a number of activities which are governed by environmental or health and safety laws in Bulgaria, which also cover historic environmental liabilities associated with past environmental damage, storage and handling of petroleum products, soil and groundwater contamination, waste management, water supply, waste water management, atmospheric emissions, use and disposal of hazardous materials and land use and planning requirements, including community issues, associated with the development of new green field retail stations.

The principal legislation in Bulgaria which set out the framework for environmental protection and sustainable development are the Law on Environment Protection, the Law on Waste Management and sector-specific legislation, including the Law on Ambient Air Purity, the Law on Water, the Law on Soil Protection, the Law on Underground Resources, the Law on Renewable and Alternative Energy Sources and Biofuels and various regulations on their implementation. As part of Bulgaria's preparation for accession to the EU, each of these laws has been brought into line with EU standards, with the new standards being phased in over time. Any failure by the Group to comply with such laws may be a ground for civil and/or administrative liability.

With regard to the Group's retail stations, Bulgarian law requires that a number of air, water, land and noise emissions are monitored and recorded and processes established for minimising such emissions and rendering them harmless. The following are monitored pursuant to these obligations:

- Air emissions are monitored for dust, hydrogen sulphide, sulphurous dioxide, nitrogen dioxide, lead aerosols, ammonia, carbonic acid and hydrocarbon;
- Water emissions are monitored for temperature, pH, dissolved oxygen, conductance, turbidity, phosphates, copper, zinc, lead and oil products;
- Surrounding soil is monitored for pH, nitrate nitrogen, copper, chlorides, phosphates, zinc, lead and oil products; and
- Noise levels are monitored.

The Group is in compliance in all material respects with environmental requirements currently applicable to its operations and, with the planned additional investment, believes it will be able to maintain compliance with known forthcoming requirements. The Group's intention is to continue to ensure environmental compliance and pollution prevention in advance of regulatory requirements.

### ***Vapour recovery systems***

One of the major areas in which the Group has invested, and will continue to invest, is in meeting the Bulgarian and EU requirements for the control of volatile organic compounds ("VOCs"). VOCs are compounds containing carbon that evaporate into the air, such as vapour arising from certain petroleum products. EU Directive 94/63/EC Directive on VOCs emissions resulting from storage and distribution of petrol set limits on the permitted levels of such emissions. The Directive has been implemented in

Bulgarian legislation in the form of *Ordinance No. 16* dated 12 August 1999, which limits the emissions of VOCs connected with the storage, loading or unloading and transportation of petrol.

The legalisation established very strict requirements for fuel stations, fuel storage terminals, and fuel tank trucks. Pursuant to these requirements the tanks of fuel stations are made with double walls filled with inert liquid. The Group installed level measuring systems which react to the slightest changes in the level of fuel, as well as systems for sending vapours back into the fuel tank truck during unloading of the fuel. As a result, the dangers of fuel leaks and pollution with carbon oxides are minimised.

In order for the Group to comply with environmental criteria, the loading and storage terminals are currently being reconstructed. Floating roofs limiting the vapours to a minimum have been installed and new mounting platforms for down filling of fuel trucks and vapour recovery system have been built.

European Directive 94/63/EC also requires that fuel tanker trucks used to transport fuels must meet certain ecological criteria which aim to keep VOC emissions into the atmosphere at a minimum level during loading and unloading. In order to comply with these requirements, the Group acquired 36 new fuel tank trucks from IVECO Spa and Mercedes, which meet the requirements of the Directive and Euro 3 emission standards. This standard requires compliance with significant restrictions on noise and nitrogen, carbon oxides and hydrocarbon emissions.

With a view to promote the consumption of biofuels and other renewable fuels in transport sector and in compliance with the adopted amendments to the RAESBA, since 1 September 2010 the Group offers fuel for diesel engines with a minimum biodiesel content of 3 per cent. vol.

### **ISO Certification**

In December 2004, the Management of the Group resolved to obtain certifications for its quality management standards under ISO 9001:2000 and its environmental management system under ISO 14001:1996 for the Issuer and the subsidiary Naftex Petrol EOOD. This confirmed the commitment of the Management to implement the best European practices in process management. The process included the preparation, documentation and implementation of written rules and procedures and an audit of the procedures by an independent third party. In October 2007, both companies obtained an ISO 9001:2000 certificate. The Management continues to be committed to undertaking the measures necessary to fulfilling the requirements of the ISO 14001:1996 standard.

### **Supervisory Board**

The following table set out the names and function of the individuals appointed as members of the Supervisory Board for the Issuer. There are no potential conflicts of interest between the duties owed by any individual set out below to the Issuer and their private interests and/or other duties.

<b>Name</b>	<b>Function</b>	<b>Principal Activities Outside Issuer</b>	<b>Address</b>
Mitko Sabev	Chairman	Chairman of the Board of Petrol Holding AD	43 Cherni Vrah Blvd., 1407 Sofia
Stoyan Krastev	Member	Lawyer	43 Cherni Vrah Blvd., 1407 Sofia
Ivan Neykov	Member	Councillor of Sofia Municipality	43 Cherni Vrah Blvd., 1407 Sofia
Denis Jersov	Member	None	43 Cherni Vrah Blvd., 1407 Sofia
Nedelcho Proshkov	Member	None	43 Cherni Vrah Blvd., 1407 Sofia

## Management

The following table sets out the names and functions of the individuals appointed as members of the Board of Directors for the Issuer. There are no potential conflicts of interest between the duties owed by any individual set out below to the Issuer and their private interests and/or other duties.

Name	Function	Principal Activities Outside Issuer	Address
Svetoslav Yordanov	Chairman of Management Board, Chief Executive Officer	None	43 Cherni Vrah Blvd., 1407 Sofia
Ivan Kostadinov	Deputy Chairman of Management Board, Sales and Marketing Director	None	43 Cherni Vrah Blvd., 1407 Sofia
Kaloyan Karshev	Investments and Technical Support Director	None	43 Cherni Vrah Blvd., 1407 Sofia
Svetodar Yosifov	Marketing and Advertising Director	CEO of Devin Royal EAD	43 Cherni Vrah Blvd., 1407 Sofia
Orlin Todorov	Member	CEO of Petrol Holding AD	43 Cherni Vrah Blvd., 1407 Sofia

**Mitko Sabev** was born on 8 October 1961. He graduated from the Naval Academy in Varna and worked as a Captain's First Officer at Navigation Maritime Bulgare. He was the co-founder and General Manager of Festa Holding AD. He has been Executive Director of Yukos Petroleum Bulgaria AD and a Chairman of the Supervisory Board of Naftex Bulgaria Holding AD. During the period 2003 – 2005, he was the Chairman of the Supervisory Board of Eurobank AD (currently known as Piraeus Bank Bulgaria AD).

**Stoyan Krastev** was born on 8 August 1956 in Sofia. He graduated from Law School at Sofia University St. Kliment Ohridski. He is the Chairman of the Board of directors of Jurex Consult AD. He has been member of the Supervisory Board of United Bulgarian Bank and a member of the Management Board of Bulgarian Association of Licensed Investment Intermediaries.

**Ivan Neykov** was born on 17 April 1955 in Haskovo. He graduated from Law School at Sofia University St. Kliment Ohridski. He is an expert in labour law and insurance law and has experience in industrial relations, collective labour disputes, and pension funds management. He is a Chairman of the Management Board of Balkan Institute for Labour and Social Policy. He was a Minister of Employment and Social Affairs, vice chairman of Confederation of Independent Trade Unions in Bulgaria (CITUB). At present, he is a municipal councillor of Sofia Municipality, a deputy chairman of the Standing Committee for Ethics and Standing Committee for Budget and Finances and a member of the Standing Committee of Health and Social policy. He is the author of a number of publications in the national press and publications of the International Labour Organization about different aspects of social policy, labour law, collective labour bargaining and agreements, and labour disputes. He has a working level knowledge of Russian language.

**Denis Jersov** was born on 12 April 1966 in Cheliyabinsk, Russia. In 1988 he graduated from the Tumen Industrial University as a mine engineer – an expert in developing oil fields. In 1989 he started business activities and during the period 1990 – 1991 held the position Vice-president of foreign trade at Conex, where the majority share was held by a Russian state-owned oil trust, being one of the biggest Russian crude oil exporting companies in those days. At the end of 1991 he founded the Naftex Group.

**Nedelcho Proshkov** was born on 2 August 1950. He graduated the University of National and World Economy in Sofia with a PhD degree in Economic Sciences. He was a Chairman of the Bulgarian Union for Physical Culture and Sport and Director of the Bulgarian Sport Totalizer.

**Svetoslav Yordanov** was born on 28 May 1960 in Burgas. He graduated from the University of Economics in Varna in Accounting and control. He worked in Neftochim Burgas AD as Deputy Chief Accountant, Financial Director and Commercial Director. He has been the Executive Director of

Multigroup AD. From 1999 he has been the Chief Executive Officer of Petrol AD. He is fluent in Russian and English.

**Ivan Kostadinov** was born on 28 May 1974. He has a Master's degree in Insurance and Social Work from the University of National and World Economy in Sofia. For several years he held different positions in the Commercial Department. His previous position was as a Sales Supervisor.

**Kaloyan Karshev** was born on 5 November 1969. He has a Master's degree in Oil Technology from the University of Chemical Technology and Metallurgy in Sofia and a Master's degree in Ecology and Sustainable Development from Queen Mary University in London. He has worked for more than 10 years in Petrol AD and has held several different positions. His previous position was the Head of Technical Department. He is responsible for fuel quality control.

**Svetodar Yosifov** was born on 4 August 1978. He has Bachelor's Degree in Industrial Engineering from the Technical University in Sofia and he has a Master's Degree in Business Administration with profile "Strategic Planning" from the University of Buckingham in the United Kingdom. He has worked for Petrol AD since 2005 as Director of Marketing and Advertising.

**Orlin Todorov** was born on 18 January 1962. He graduated from the Institute of Economics in Sofia with a Master's degree in international economic relations. His career started in Intercommerce as an expert on merchandise, then as a manager of a department. He worked as a director in Tradicom OOD. Since 1995 he has taken several positions in ING Bank N.V. Sofia branch, the last one being Director of Corporate Banking. In 2003 he became Chief Financial Officer of Petrol AD. Since 2005 he has been Chief Executive Officer of Petrol Holding AD.

The following table sets out the names and functions of the individuals appointed as members of the Board of Directors for the Guarantor. There are no potential conflicts of interest between the duties owed by the individuals set out below to the Guarantor and their private interests and/or other duties.

<b>Name</b>	<b>Function</b>		<b>Principal Activities Outside Guarantor</b>	<b>Address</b>
Jordan Georgiev	Chief Officer	Executive	None	22A Bratya Miladinovi Str., 9000 Varna
Tsvetan Genov Hristov	Chief Officer	Executive	None	22A Bratya Miladinovi Str., 9000 Varna



## TERMS AND CONDITIONS OF THE NOTES

*The following (save for the paragraphs in italics) are the terms and conditions substantially in the form in which they will be endorsed on the Notes:*

The issue of the Notes was authorised by a resolution of the shareholders of Petrol AD (the "**Issuer**") on 8 May 2006 and a resolution of the Issuer's Management Board on 5 October 2006, which was approved by the Issuer's Supervisory Board on 6 October 2006 and the guarantee of the Notes was authorised by the Issuer as sole owner of Naftex Petrol EOOD (the "**Guarantor**") with a resolution of the Issuer's Management Board on 5 October 2006. The Notes are constituted by a Trust Deed (the "**Trust Deed**") dated 26 October 2006 between the Issuer, the Guarantor and The Bank of New York (the "**Trustee**", which expression shall include all Persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes and are the subject of an agency agreement dated 26 October 2006 (the "**Agency Agreement**") between the Issuer, The Bank of New York as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**", which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), the paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the "**Paying and Transfer Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying and Transfer Agent and the Paying and Transfer Agents and any reference to an "**Agent**" is to any one of them.

Copies of the Trust Deed and of the Agency Agreement, are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

### 1. **Form, Denomination, Register, Title and Transfer**

- (a) *Form and denomination:* The Notes are in registered form, without interest coupons attached, in the denomination of €100,000.

*So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €100,000 and integral multiples of €1,000 in excess thereof.*

- (b) *Register:* The Registrar will maintain outside the United Kingdom a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the Person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (c) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no Person shall be liable for so treating such Holder. No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.
- (d) *Transfers:* Subject to Condition 1(g) and Condition 1(h), a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed (including any certificates as to compliance with restrictions on transfer

included therein), at the Specified Office of the Registrar or any Paying and Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

- (e) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with Condition 1(d), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Paying and Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first-class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Paying and Transfer Agent has its Specified Office.
- (f) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying and Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Paying and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (g) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 (fifteen) days ending on the due date for any payment of principal or interest in respect of the Notes.
- (h) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar and/or any Paying and Transfer Agent to any Noteholder who requests in writing a copy of such regulations. So long as any of the Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, a copy of the current regulations will be publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London.

## 2. **Guarantee and Status**

- (a) *Guarantee:* The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes. Its obligations in that respect (the "**Guarantee**") are contained in the Trust Deed.
- (b) *Status:* The Notes constitute (subject to Condition 3.1) direct unsubordinated and unconditional obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes, and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3.1, at all times rank at least equally with all their respective other present and future unsecured and unsubordinated obligations.
- (c) *Security:* The Trustee for the benefit of the Noteholders has a first-ranking security interest over certain intercompany loans, constituting the Cash Management Loan and the Proceeds Loan.

3. **Negative Pledge and Other Covenants**

3.1 [Deleted]

3.2 ***General Covenants***

So long as any of the Notes remains outstanding:

(a) [Deleted]

(b) [Deleted]

(c) [Deleted]

(d) [Deleted]

(e) [Deleted]

(f) [Deleted]

(g) [Deleted]

(h) [Deleted]

(i) *Provision of Financial Information:*

(i) The Issuer will provide to the Trustee and the Noteholders:

(A) within 120 days after the end of each fiscal year, annual reports containing the following information with a level of detail that is comparable in all material respects to the prospectus: (a) audited consolidated financial statements of the Issuer for such fiscal year, including appropriate footnotes to such financial statements and a report of the independent auditors on the financial statements, in each case prepared in accordance with IFRS; and (b) pro forma income statement and balance sheet information, together with condensed explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year;

(B) within 60 days following the end of each of the first three fiscal quarters in each fiscal year, quarterly reports containing an unaudited condensed consolidated financial statements of the Issuer for such fiscal quarter, and the comparable prior year periods, together with condensed footnote disclosure, in each case prepared in accordance with IFRS; and

(C) promptly after the occurrence of a material acquisition, disposition or restructuring, or any senior management change at the Issuer, or change in auditors, a report containing a description of such event.

(ii) The quarterly and annual financial information required by the preceding paragraph will include supplemental financial information regarding the consolidated Indebtedness and EBITDA of the Group.

(iii) The above financial statements and reports are obtainable at the specified office of the Principal Paying Agent for the time being in London.

(j) [Deleted]

### 3.3 ***Observance of other obligations and rights***

Each of the Issuer and the Guarantor shall perform all its obligations and exercise (to the extent required by the Security Documents) all its rights under and in accordance with the Security Documents to which it is party.

## 4. **Interest**

The Notes bear interest from the Issue Date at the rate of 8.375 per cent. per annum (the "**Rate of Interest**"), payable (1) annually in arrear on 26 October in each year up to (but excluding) 26 October 2010 and (2) on 26 January 2012 in respect of the period from (and including) 26 October 2010 to (but excluding) 26 January 2012 and (3) from (and including) 26 January 2012 annually in arrear on 26 January in each year beginning on 26 January 2013 (each date on which interest is scheduled to be paid, an "**Interest Payment Date**"). Each Note will cease to bear interest from the due date for redemption, unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

The amount of interest payable on each Interest Payment Date up to and including 26 October 2010 shall be €83.75 in respect of each €1,000 in principal amount of each Note. The amount of interest payable on the Interest Payment Date falling on 26 January 2012 shall be €104.86 in respect of each €1,000 in principal amount of each Note. The amount of interest payable on each Interest Payment Date from and including 26 January 2013 shall be €83.75 in respect of each €1,000 in principal amount of each Note. Subject to Condition 6(c), if interest is required to be paid in respect of a Note on any other date, it shall be calculated for each €1,000 in principal amount of each Note by applying the Rate of Interest to €1,000, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

**"Day Count Fraction"** means:

- (a) if the Calculation Period is equal to or shorter than the Regular Period during which it falls, the number of days in the Calculation Period divided by the number of days in such Regular Period; and
- (b) if the Calculation Period is longer than one Regular Period, the sum of:
  - (i) the number of days in such Calculation Period falling in the Regular Period in which it begins divided by the number of days in such Regular Period; and
  - (ii) the number of days in such Calculation Period falling in the next Regular Period divided by the number of days in such Regular Period;

**"Calculation Period"** means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period;

**"Regular Date"** means 26 January in any year; and

**"Regular Period"** means each period from (and including) any Regular Date to (but excluding) the next Regular Date.

## 5. **Redemption and Purchase**

### 5.1 ***Redemption at Maturity***

- (a) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 26 January 2017; and

- (b) Other than as specified below, the Notes are not optionally redeemable prior to 26 January 2017.

## 5.2 ***Redemption for Taxation Reasons***

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) as a result of any change in, or amendment to, the laws or regulations of Bulgaria, or any change in the application or official interpretation of the laws or regulations of Bulgaria, which change or amendment becomes effective after 26 October 2006, on the next Interest Payment Date, the Issuer or, as the case may be, the Guarantor, would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor, taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (A) an opinion of independent legal counsel of recognised standing that the requirement referred to in (a) above will apply on the next Interest Payment Date and (B) a certificate signed by two directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it. The Trustee shall be entitled to accept such opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders.

## 5.3 ***Redemption at the Option of the Holders Upon a Change of Control***

- (a) Upon the occurrence of a Change of Control, each Noteholder will have the right to require that the Issuer redeem all or some of such Noteholder's Notes pursuant to the option described below. Upon the occurrence of a Change of Control, unless the Issuer has already given an irrevocable notice under Condition 5.2, the Issuer will notify the Trustee and the Noteholders (in accordance with Condition 14), within 15 days after the occurrence of such Change of Control, of (a) the fact of such Change of Control and (b) the Change of Control Redemption Date and (c) upon the exercise of the option by the holder of any Note, the Issuer will redeem such Note on the Change of Control Redemption Date at 101 per cent. of its principal amount, together with interest accrued to but excluding the Change of Control Redemption Date.
- (b) Any Holder wishing to exercise such option shall deposit the Note or Notes to be redeemed with any Paying and Transfer Agent together with a duly completed redemption notice in the form obtainable from any of the Paying and Transfer Agents, not less than five days prior to the Change of Control Redemption Date. Any such redemption notice will be irrevocable unless its revocation is approved in writing by the Issuer not less than five days prior to the Change of Control Redemption Date and will bind the Issuer to redeem the Notes to which such notice relates.

## 5.4 ***Purchases***

The Issuer, the Guarantor or any of their respective subsidiaries may at any time purchase Notes in any manner and at any price.

## 5.5 ***Cancellations***

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of their respective subsidiaries will forthwith be cancelled and accordingly may not be held, reissued or resold.

## 5.6 ***Redemption at the Option of the Issuer***

At any time or from time to time prior to 26 January 2017, the Issuer may redeem the Notes, in whole or in part, upon not less than 30 nor more than 60 days' notice delivered to each holder of Notes pursuant to the procedures described under Condition 5.8 at a redemption price equal to 100 per cent. of the principal amount thereof plus accrued and unpaid interest and additional amounts due under Condition 7, if any, to such redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

## 5.7 ***Equity Clawback***

At any time or from time to time on or prior to 26 October 2009, the Issuer may, at its option, redeem up to 35 per cent. in principal amount of the Notes, upon not less than 30 nor more than 60 days' notice delivered to each holder of Notes pursuant to the procedures described under Condition 5.8, at a redemption price equal to 108.375 per cent. of the aggregate principal amount thereof, plus accrued and unpaid interest and additional amounts payable under Condition 7, if any, to such redemption date, with the net cash proceeds of one or more Equity Offerings (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); **provided that** at least 65 per cent. of the original principal amount of the Notes outstanding on the Issue Date remains outstanding immediately after each such redemption (other than Notes held, directly or indirectly, by the Issuer or its Affiliates). Each such redemption shall occur within 90 days of the closing of the relevant Equity Offering.

**"Equity Offering"** means any underwritten public offering or private sale of Capital Stock of the Issuer listed on a recognised exchange in Bulgaria or the European Union or a direct or indirect parent company of the Issuer (in each case, other than Disqualified Stock) to one or more Persons (other than (i) a Permitted Holder, (ii) employees or (iii) any sale to an employee stock ownership plan or to a trust established by the Issuer or any member of the Group for the benefit of their employees if such employee stock plan or trust has Incurred any Indebtedness (x) to the extent of any such Indebtedness that is owed by such plan or trust to the Issuer or any member of the Group or (y) to the extent of any guarantee Incurred by the Issuer or any member of the Group of any such Indebtedness of such employee stock plan or trust), whereby the Issuer or the direct or indirect parent company receives gross proceeds of not less than €25 million but, in the case of any such offering by a direct or indirect parent of the Issuer, only to the extent the net cash proceeds thereof are contributed to the equity (other than through the issuance of Disqualified Stock) of the Issuer.

## 5.8 ***Selection and Notice***

- (a) If less than all of the Notes are to be redeemed at any time, the Notes will be selected for purchase or redemption as follows: (i) if the Notes to be purchased or redeemed are listed on any securities exchange, in compliance with the requirements of the principal securities exchange on which the notes are listed; or (ii) if the rules of any such exchange do not provide any such requirements or if the Notes to be purchased or redeemed are not listed on any securities exchange, on a *pro rata* basis or by such other method as the Trustee deems fair and appropriate.
- (b) Notices of purchase or redemption will be mailed by first class mail at least 30 but not more than 60 days before the purchase or redemption date to each holder of Notes to be purchased or redeemed at its registered address.
- (c) No Notes shall be purchased or redeemed in part if the principal amount of the resulting note would be less than €100,000.
- (d) If any Note is to be purchased or redeemed in part only, any notice of purchase or redemption that relates to such Note shall state the portion of the principal amount

thereof that has been or is to be purchased or redeemed. A new Note Certificate in principal amount equal to the unpurchased or unredeemed portion of any Note purchased or redeemed in part will be issued in the name of the Holder thereof upon cancellation of the original note. On and after any purchase or redemption date, unless the Issuer defaults in payment of the purchase or redemption price, interest shall cease to accrue on Notes or portions thereof tendered for purchase or called for redemption.

## 6. Payments

- (a) *Method of Payment:* Payments of principal, premium and interest shall be made by euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account (or any account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the Trans-European Automated Real Time Gross Settlement Express Transfer System or any successor thereto (the "**TARGET System**").
- (b) *Payments subject to laws:* All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (c) *Payments on business days:* Where payment is to be made by transfer to a euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by euro cheque, the cheque will be mailed (i) (in the case of payments of principal, premium and interest payable on redemption or, as the case may be, purchase pursuant to Condition 5.4) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying and Transfer Agent and (ii) (in the case of payments of interest payable other than on redemption or, as the case may be, purchase pursuant to Condition 5.4) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (d) *Partial payments:* If a Paying and Transfer Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (e) *Record date:* Each payment in respect of a Note will be made to the Person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (f) *Agents:* The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents, **provided that** they will maintain (i) a Principal Paying and Transfer Agent, (ii) a Registrar, (iii) Paying and Transfer Agents having specified offices in at least two major European cities approved by the Trustee (including London, so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to

trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market) and (iv) a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders.

## 7. **Taxation**

All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Bulgaria or any authority therein or thereof having power to tax ("**Taxes**"), unless such withholding or deduction is required by law. In that event and in the event that any payment under the Guarantee is subject to any such Taxes, the Issuer or the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

- (a) *Other connection:* by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Bulgaria other than the mere holding of the Note; or
- (b) *Presentation more than 30 days after the Relevant Date:* more than 30 days after the Relevant Date, except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days; or
- (c) *Payment to individuals:* where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) *Payment by another Paying and Transfer Agent:* by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying and Transfer Agent in a Member State of the European Union.

"**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

## 8. **Events of Default**

If any of the following events (an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested by holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount, together with accrued interest, if:

- (a) *Non-Payment:* default is made in the payment of principal, premium or interest on any of the Notes when due and, in the case of interest, such failure continues for a period of ten days; or



- (b) [Deleted]
- (c) *Breach of Other Obligations:* the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Notes, the Trust Deed or any Security Document, which Default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such Default shall have been given to the Issuer by the Trustee; or
- (d) *Cross-Default:* (i) any other present or future Indebtedness of the Issuer or any member of the Group becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any member of the Group fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness **provided that** the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (d) have occurred equals or exceeds €3,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this paragraph operates); or
- (e) *Enforcement Proceedings:* a distress, attachment, execution or other legal process is levied, enforced or sued out on or against, in the opinion of the Trustee, any material part of the property, assets or revenues of the Issuer or any member of the Group and is not discharged or stayed within 60 days; or
- (f) *Security Enforced:* any step (including the taking of possession or the appointment of a receiver, manager or other similar Person) is taken to enforce any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any member of the Group (or such encumbrance becomes enforceable) if the value of the assets subject to such encumbrance or the principal amount of Indebtedness secured by such encumbrance equals or exceeds €3,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this paragraph operates); or
- (g) *Judgment Default:* any one or more judgments or orders is made against the Issuer or a member of the Group involving an aggregate liability not paid or fully covered by insurance in respect of a matter (or a series of related matters) greater than €3,000,000 (or its equivalent in any other currency or currencies), unless all those judgments and orders (i) are vacated or discharged within 30 days of their being made or (ii) are being appealed in good faith and on reasonable grounds and the Issuer or the relevant member of the Group, as the case may be, is maintaining adequate reserves for the amount of such judgment or order; or
- (h) *Insolvency:* the Issuer or any member of the Group is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, applies for bankruptcy or suspension of payments (or its bankruptcy is applied for by a third party and any ensuing proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 90 days), stops, suspends or threatens to stop or suspend payment of all or a material, in the opinion of the Trustee, part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any member of the Group; or
- (i) *Winding-up:* an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any member of the Group, or the Issuer or the Guarantor ceases or threatens to cease to carry on all or, in the opinion of the Trustee, a material part of its business or operations, except for the purpose of and followed by a

reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor (as the case may be) or another member of the Group; or

- (j) *Ownership*: the Guarantor ceases to be majority-owned and controlled by the Issuer; or
- (k) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer, the Guarantor, and each member of the Group lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes, the Trust Deed and the Security Documents to which such member of the Group is a party, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed and the Security Documents admissible in evidence in the courts of Bulgaria or England is not taken, fulfilled or done; or
- (l) *Illegality*: it is or will become unlawful for (i) the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes, the Security Documents, the Trust Deed or the Guarantee, as applicable; or
- (m) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or
- (n) *Guarantee*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (o) *Security Interest*: the Security Interest created by the Security Documents or any other security document entered into pursuant to Condition 3.1 shall, at any time, cease to be in full force and effect (other than in accordance with the terms of such Security Documents or security document) for any reason other than the irrevocable satisfaction in full in cash of all obligations under the Trust Deed and the Notes and discharge of the Trust Deed, or any such Security Interest shall be declared invalid or unenforceable by a court of competent jurisdiction or the relevant grantor of such Security Interest shall assert, in any pleading in any court of competent jurisdiction, that such Security Interest is invalid or unenforceable; or
- (p) *Licences*: any termination, suspension, revocation, non-renewal, repudiation, material modification or other withdrawal or loss by the Issuer or any other member of the Group of a licence (or any successor licence) occurs, in each case resulting in the cessation or suspension of a substantial, in the opinion of the Trustee, part of the business of the Group for a period of more than 90 days.

#### 9. **Prescription**

Claims in respect of principal, premium and interest will become void, unless presentation for payment is made as required by Condition 6 within a period of 10 years, in the case of principal and premium, and five years, in the case of interest, from the appropriate Relevant Date.

#### 10. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Principal Paying and Transfer Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. **Meetings of Noteholders; Modification, Waiver and Substitution**

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions, any provisions of the Trust Deed or the Cash Management Loan or the Proceeds Loan. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more Persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to change the currency of payment of the Notes, (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (v) to modify or cancel the Guarantee or (vi) to modify or cancel the Cash Management Loan or the Proceeds Loan, in which case the necessary quorum will be two or more Persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). The Trust Deed provides that a resolution in writing signed by or on behalf of holders of not less than 90 per cent. of the aggregate principal amount of Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.
- (b) *Modification and Waiver:* The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) *Substitution:* The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution, the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed, **provided that** such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) *Entitlement of the Trustee:* In connection with the exercise of its functions (including but not limited to those referred to in this Condition), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

12. **Trustee Reliance**

The Issuer and the Guarantor have undertaken in the Trust Deed to deliver to the Trustee annually a certificate of the Issuer and the Guarantor as to there not having occurred an Event of

Default or Default since the date of the last such certificate or, if such event has occurred, as to the details of such event. The Trustee will be entitled to rely on any such certificate and shall not be obliged to independently monitor compliance by the Issuer or the Guarantor with the covenants set forth in Condition 3, nor be liable to any person for not so doing and need not enquire further as regards to circumstances existing on the date of such certificate.

13. **Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer, the Guarantor or any or their respective subsidiaries as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such proceedings, unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer, the Guarantor or any of their respective subsidiaries, unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee shall be entitled to rely on reports, certificates and opinions of the auditors of the Issuer and the Guarantor notwithstanding that the auditors' liability in respect thereof may be limited by reference to monetary cap or otherwise.

15. **Notices**

Notices to the Noteholders will be sent to them by first-class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are admitted to trading on the London Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published on the date of such mailing in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

16. **Contracts (Rights of Third Parties) Act 1999**

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. **Governing Law**

(a) *Governing Law:* The Trust Deed, the Notes and the Guarantee are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The courts of England are to have jurisdiction to settle any disputes which may arise out of, or in connection with, the Trust Deed, the Notes or the Guarantee and, accordingly, any legal action or proceedings arising out of, or in connection with, the Trust Deed, the Notes or the Guarantee ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waives any objection to Proceedings in such court on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are for the benefit of the Trustee and the Noteholders and shall not limit the right of any of them to take proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction (whether concurrently or not).

- (c) *Agent for Service of Process*: Each of the Issuer and the Guarantor has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Trust Deed, the Notes or the Guarantee.

## 18. Definitions

In these Conditions:

**"Affiliate"** of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, **"control"**, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; **provided that** beneficial ownership of 10 per cent. or more of the voting stock of a Person shall be deemed to be control. For purposes of this definition, the terms **"controlling"**, **"controlled by"** and **"under common control with"** shall have correlative meanings.

**"Attributable Value"** means the present value of the lessee's obligation for net rental payments during the remaining term of the lease relating to a Sale and Leaseback Transaction (including any extension), calculated using a discount rate equal to the interest rate implicit in such lease, **provided that** if such Sale and Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of Capital Lease Obligation.

**"Board of Directors"** means the Management Board of the Issuer, and the term "director" shall correspondingly mean a member of such Management Board.

**"Capital Lease Obligation"** means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of Condition 3.1, a Capital Lease Obligation will be deemed to be secured by a Security Interest on the property being leased.

**"Capital Stock"** of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any preferred stock, but excluding any debt securities convertible into such equity.

**"Cash Management Loan"** means the loan dated the Issue Date from the Issuer to the Parent in an aggregate principal amount of BGN 52,585,724.33 million, as amended or supplemented from time to time.

**"Change of Control"** will be deemed to have occurred upon:

- (a) the Permitted Holders ceasing to be the beneficial owners, directly or indirectly, of a majority in the aggregate of the total voting power of the Capital Stock of the Issuer, whether as a result of issuance of securities of the Issuer, any merger, consolidation, liquidation or dissolution of the Issuer, or any direct or indirect transfer of securities by the Issuer or otherwise (for purposes of this clause (a) and clause (b) below, the Permitted Holders shall be deemed to beneficially own any voting Capital Stock of a Person (the **"specified Person"**) held by any other Person (the **"parent entity"**) so long as the Permitted Holders beneficially own, directly or indirectly, in the aggregate a majority of the voting power of the Capital Stock of the parent entity);
- (b) the Permitted Holders ceasing to Control the Issuer or any successor in business of the Issuer; and where **"Control"** means the power to direct the management and policies of the entity concerned through the ownership of voting power of the Capital Stock, by contract or otherwise; or

- (c) the adoption of a plan relating to the liquidation or dissolution of the Issuer.

**"Change of Control Redemption Date"** means the date fixed for redemption specified in the Issuer's notice referred to in Condition 5.3(a) and falling not more than 45 nor less than 30 days following the date of such notice.

**"Consolidated Interest Expense"** means, for any period, the total interest expense of the Group for such period.

**"Consolidated Net Income"** means, for any period, the net income of the Group; **provided that** there shall not be included in such Consolidated Net Income:

- (a) any net income of any Person (other than the Issuer) if such Person is not a Subsidiary, except that:
- (i) subject to the exclusion contained in clause (d) below, the Issuer's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer or another member of the Group that is a Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Subsidiary, to the limitations contained in clause (c) below); and
  - (ii) the Issuer's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income;
- (b) any net income (or loss) of any Person acquired by the Issuer or another member of the Group in a pooling of interests transaction (or any transaction accounted for in a manner similar to a pooling of interests) for any period prior to the date of such acquisition;
- (c) any net income of any member of the Group if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such member of the Group, directly or indirectly, to the Issuer, except that:
- (i) subject to the exclusion contained in clause (d) below, the Issuer's equity in the net income of any such member of the Group for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such member of the Group during such period to the Issuer or another member of the Group as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another member of the Group, to the limitation contained in this clause); and
  - (ii) the Issuer's equity in a net loss of any such member of the Group for such period shall be included in determining such Net Income;
- (d) any gain (or loss) realised upon the sale or other disposition of any assets of the Issuer, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which are not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realised upon the sale or other disposition of any Capital Stock of any Person;
- (e) extraordinary gains or losses; and
- (f) the cumulative effect of a change in accounting principles following the Issue Date,
- in each case, for such period.

**"Default"** means any event which is, or after notice or passage of time or both would be, an Event of Default.

**"Disqualified Stock"** means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

- (a) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the first anniversary of the latest stated maturity of the Notes; **provided that** only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock; **provided, further, that** any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Issuer to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (each defined in a substantially identical manner to the corresponding definitions in the Trust Deed) shall not constitute Disqualified Stock if the terms of such Capital Stock (and all such securities into which it is convertible or for which it is rateable or exchangeable) provide that the Issuer may not repurchase or redeem any such Capital Stock (and all such securities into which it is convertible or for which it is rateable or exchangeable) pursuant to such provision prior to compliance by the Issuer with the provisions of the Trust Deed under Conditions 3.2(b), 3.2(d) and 6.3.

**"EBITDA"** for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income:

- (a) all income tax expense of the Group;
- (b) Consolidated Interest Expense;
- (c) depreciation and amortization expense of the Group (excluding amortization expense attributable to a prepaid item that was paid in cash in a prior period); and
- (d) all other non-cash charges of the Group (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income of the Group (other than accruals of revenue by the Group in the ordinary course of business);

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a member of the Group shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income or loss of such member of the Group was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Issuer by such member of the Group without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such member of the Group or its stockholders.

**"Fair Market Value"** means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the Board of Directors, whose determination will be conclusive and evidenced by a resolution of such Board of Directors; **provided, however, that**, if the Fair Market Value of the property or assets in question is so determined to be in excess of €5,000,000, such determination must be confirmed by an accounting, appraisal or investment banking firm of international standing, appointed by the Issuer at the Issuer's expense and approved in writing by the Trustee. For purposes of determining the Fair Market Value of Capital Stock, the value of the Capital Stock of a Person

shall be based upon such Person's property and assets, exclusive of goodwill or any similar Intangible asset.

**"Group"** means the Issuer and each of its Subsidiaries and all references to group member shall be construed accordingly.

**"Hedging Transaction"** means any derivative transaction entered into in connection with protection against or to benefit from fluctuations in interest rate, currency or oil price arising in the ordinary course of trading activities of a member of the Group and for prudent business reasons and not for speculative purposes.

**"IFRS"** means those accounting principles, policies, standards, bases and practices which, from time to time, form part of International Financial Reporting Standards.

**"Incur"** means issue, assume, guarantee, incur or otherwise become liable for; **provided, however, that** any Indebtedness of a Person existing at the time such Person becomes a member of the Group (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a member of the Group. The term **"Incurrence"** when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 3.2(a):

- (a) the amortisation of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;
- (b) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and
- (c) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness.

**"Indebtedness"** means, with respect to any Person on any date of determination (without duplication):

- (a) the principal in respect of (i) indebtedness of such Person for money borrowed and (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;
- (b) all Capital Lease Obligations of such Person and all Attributable Value in respect of Sale and Leaseback Transactions entered into by such Person;
- (c) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable or other liability to trade creditors arising in the ordinary course of business);
- (d) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth business day following payment on the letter of credit or otherwise has the benefit of a full cash collateral with the provider of such letter of credit);
- (e) the amount of all obligations of such Person with respect of the redemption, repayment or other repurchase of any Disqualified Stock of such of such Person or, with respect to



any preferred stock of any Subsidiary of such Person, the principal amount of such preferred stock (which principal amount shall exclude any accrued dividends);

- (f) all obligations of the type referred to in clauses (a) through (e) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee;
- (g) all obligations of the type referred to in clauses (a) through (f) of other Persons secured by any Security Interest on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the Fair Market Value of such property or assets and the amount of the obligation so secured; and
- (h) to the extent not otherwise included in this definition, obligations under a Hedging Transaction of such Person.

Notwithstanding the foregoing, (i) in connection with the purchase by the Issuer or any member of the Group of any business, the term "**Indebtedness**" will exclude post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; **provided, however, that**, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter and (ii) the term "**Indebtedness**" will exclude Subordinated Shareholder Debt.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above; **provided, however, that** in the case of Indebtedness sold at a discount, the amount of such Indebtedness at any time will be the accredited value thereof at such time.

**"Parent"** means Petrol Holding AD.

**"Permitted Holders"** means (i) Denis Jeršov, Mitko Sabev, Alexander Melnik and Fridrich Czaufal and their respective Affiliates, including their respective estates and lineal descendants (including by adoption), (ii) the legal representatives of any of the foregoing and (iii) the trustees of bona fide trusts of which the foregoing are sole beneficiaries.

**"Person"** means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

**"Proceeds Loan"** means the loan from the Issuer to the Guarantor for any or all of the proceeds of the Notes in an aggregate principal amount of BGN 55,000,000, as amended or supplemented from time to time.

**"Sale and Leaseback Transaction"** means an arrangement relating to property now owned or hereafter acquired whereby the Issuer or another member of the Group transfers such property to a Person and the Issuer or another member of the Group leases it from such Person. For purposes of Condition 3.1, the obligations under a Sale and Leaseback Transaction will be deemed to be secured by a Security Interest on the property being leased.

**"Security Documents"** means the pledge of receivables agreements dated the Issue Date providing for a first-ranking security interest of the Trustee for the benefit of the Noteholders over the Cash Management Loan and the Proceeds Loan and associated notices, confirmations and other documents.

**"Security Interest"** means any mortgage, pledge, lien, charge (fixed or floating), assignment, hypothecation, set-off or trust arrangement for the purpose of creating security, reservation of title or security interest or any other agreement or arrangement having a substantially similar effect.

**"Subordinated Shareholder Debt"** means any Indebtedness of the Issuer held by one or more direct or indirect shareholders of the Issuer that (i) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the stated maturity of the Notes; (ii) does not require, prior to the first anniversary of the stated maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts; (iii) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the stated maturity of the Notes; (iv) does not provide for or require any security interest or encumbrance over any asset of its Subsidiaries; (v) does not contain any covenants (financial or otherwise) other than a covenant to pay such Subordinated Shareholder Debt; and (vi) is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding.

**"Subsidiary"** means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50 per cent. of the total voting power of shares of Voting Stock is at the time owned or controlled, directly or indirectly, by:

- (a) such Person;
- (b) such Person and one or more Subsidiaries of such Person; or
- (c) one or more Subsidiaries of such Person.

**"Voting Stock"** of any Person means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

## **OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM**

*The Global Note Certificate contains provisions which apply to the Notes in respect of which the Global Note Certificate is issued, some of which modify the effect of the Terms and Conditions of the Notes set out in this Prospectus. Terms defined in the Terms and Conditions of the Notes have the same meaning in the paragraphs below. The following is an overview of those provisions:*

### **1. EXCHANGE AND REGISTRATION OF TITLE**

Owners of interests in the Notes in respect of which the Global Note Certificate is issued will only be entitled to have title to the Notes registered in their names and to receive individual definitive Notes if either Euroclear or Clearstream, Luxembourg (or any other clearing system as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Notes evidenced by this Global Note Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the Issuer will cause sufficient individual definitive Notes to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholders. A person with an interest in the Notes in respect of which the Global Note Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Notes.

### **2. MEETINGS**

The registered holder of the Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Notes for which the Global Note Certificate is issued. The Trustee may allow a person with an interest in Notes in respect of which the Global Note Certificate has been issued to attend and speak (but not vote) at a meeting of Noteholders on appropriate proof of his identity and interest.

### **3. CANCELLATION**

Cancellation of any Note by the Issuer following its redemption or purchase by the Issuer, the Guarantor or any of their respective subsidiaries will be effected by a reduction in the principal amount of the Notes in the Register.

### **4. TRUSTEE'S POWERS**

In considering the interests of Noteholders while the Global Note Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Notes, and (b) consider such interests on the basis that such accountholders were the holders of the Notes in respect of which this Global Note Certificate is issued.

### **5. PAYMENT**

Payments of principal, interest and premium (if any) in respect of Notes represented by the Global Note Certificate will be made without presentation or if no further payment is to be made in respect of the Notes, against presentation and surrender of the Global Note Certificate to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the Noteholders for such purpose.

### **6. NOTICES**

So long as the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or any alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or

Clearstream, Luxembourg, or such alternative clearing system, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Notes.

7. **PUT OPTION**

The Noteholders' put option in Condition 5.3 may be exercised by the holder of the Global Note Certificate giving notice to the Principal Paying and Transfer Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note Certificate for endorsement of exercise within the time limits specified in Condition 5.3.

8. **TRANSFER**

Transfers of interests in the Notes represented by the Global Note Certificate will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

9. **ENFORCEMENT**

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which the Global Note Certificate is issued shall be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder, as if they were themselves the holders of Notes in such principal amounts.

10. **TRADING AMOUNTS**

So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum principal amounts of €100,000 and integral multiples of €1,000 thereafter.

11. **MINIMUM DENOMINATION**

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

## TAXATION

*The following section does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.*

*Purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of each country of which they are residents, of a purchase of Notes including, without limitation, the consequences of receipt of interest and sale or redemption of the Notes or any interest therein.*

### **Bulgaria**

#### **Taxation of certain non-Bulgarian holders of the Notes**

##### ***Taxes on income and capital gain***

Non-Bulgarian holders of the Notes other than individuals ("**Non-Bulgarian Holders**") will be subject to Bulgarian taxes on income or capital gains in respect of any payment under the Notes or in respect of any gain realised on the disposal or deemed disposal of the Notes. A 10 per cent. withholding tax is levied upon the gross amount of the interest paid or the positive difference between the sale price and the proven acquisition price (as the case may be), **provided that** such income or capital gain is not received from the place of business in Bulgaria of a Non-Bulgarian Holder.

With respect to an interest income; the withholding tax rate may be reduced to 5 per cent. if: (i) the Non-Bulgarian Holder is resident for tax purposes in an EU Member State; (ii) the Non-Bulgarian Holder is a beneficial owner of the interest and is an "associated company" of the Issuer under the meaning of the Interests and Royalties Directive 2003/49/EC (the "**Royalties Directive**"); and (iii) the other requirements under the Bulgarian implementing legislation of the Royalties Directive are fulfilled.

A reduction in the rate of Bulgarian withholding tax or complete exemption from Bulgarian taxation may be provided under a double tax treaty between Bulgaria and the country which the Non-Bulgarian Holder is a resident. The application of tax treaties in Bulgaria is subject to prior clearance procedures under the Bulgarian Tax-Insurance Procedure Code.

##### ***Other taxes and duties***

Save as described above in "Taxes on income and capital gain", there are no other taxes or duties levied on payments of interest or principal under the Notes to Non-Bulgarian Holders, or any sale of the Notes and capital gain realised by Non-Bulgarian Holders.

#### **EU Savings Tax Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, which has been implemented in Bulgarian tax legislation, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries including Switzerland, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a

person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

## **OFFER AND DISTRIBUTION RESTRICTIONS**

No action has been or will be taken in any jurisdiction by the Issuer or the Guarantor that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Guarantor to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

1. It is expected that the application for the admission to listing of the Notes on the Official List and to trading of the Notes on the London Stock Exchange will be granted on or around 14 March 2012.
2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in Bulgaria and the United Kingdom in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the Issuer's shareholders passed on 8 May 2006 and a resolution of the Issuer's Management Board on 5 October 2006, which was approved by the Issuer's Supervisory Board on 6 October 2006 and the giving of the Guarantee by the Guarantor was authorised by the Management Board of the Issuer passed on 5 October 2006. The proposals considered at the Adjourned Meeting which, amongst other things, included extending the maturity date of the Notes to 26 January 2017, were authorised by a resolution of the Management Board of the Issuer on 10 November 2011.
3. There has been no significant change in the financial or trading position of the Issuer or the Guarantor or of the Group since 30 September 2011.
4. Save as disclosed in "*Business – Legal Proceedings*" on page 40, there has been no material adverse change in the financial position or prospects of the Issuer or the Guarantor or of the Group since 31 December 2010.
5. Save as disclosed in "*Business – Legal Proceedings*" on page 40, neither the Issuer, the Guarantor nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Guarantor or any member of the Group is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor or the Group.
6. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 027181244. The International Securities Identification Number ("**ISIN**") for the Notes is XS0271812447.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

7. There are no material contracts that are not entered into in the ordinary course of the Issuer's or the Guarantor's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's or the Guarantor's ability to meet its obligations to Noteholders in respect of the Notes being issued.
8. For the period of 12 months starting on the date of this Prospectus, copies (and direct and accurate English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Paying and Transfer Agents:
  - (a) the Trust Deed (which includes the form of the Global Note Certificate and the definitive Notes);
  - (b) the Articles of Association of the Issuer and the Guarantor, together with their English translations;
  - (c) the Issuer's Annual Report 2010, the Issuer's Annual Report 2009, the Guarantor's Annual Report 2010 and the Guarantor's Annual Report 2009, together with their English translations;
  - (d) the Issuer's Interim Financial Statements and the Guarantor's Interim Financial Statements; and



- (e) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus.

In the event of a discrepancy between the original Bulgarian version of a document and its English translation, the original Bulgarian version will prevail. The Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com](http://www.londonstockexchange.com).

- 9. The annual accounts of the Issuer and the Guarantor for the last two financial years have been audited. The consolidated accounts of the Issuer and the unconsolidated accounts of the Guarantor for the years ended 31 December 2010 and 31 December 2009 were audited by Deloitte in accordance with auditing standards. The Issuer's and Guarantor's audit reports for 2010 and 2009 were qualified. For more information, see the Issuer's Annual Report 2010, the Issuer's Annual Report 2009, the Guarantor's Annual Report 2010 and the Guarantor's Annual Report 2009, and also *"Risk Factors – Risks relating to the Group's business - The Group's audited consolidated financial statements are qualified and may not fairly present the Group's financial position"*.

**REGISTERED OFFICE OF THE ISSUER**

**Petrol AD**  
43 Cherni Vrah Blvd  
Sofia 1407  
Republic of Bulgaria

**REGISTERED OFFICE OF THE GUARANTOR**

**Naftex Petrol EOOD**  
22 Bratya Miladinovi Str.  
Varna  
Republic of Bulgaria

**AUDITORS OF THE ISSUER AND THE GUARANTOR**

**Deloitte Audit Ltd.**  
103, Al. Stambolijski Blvd  
1000 Sofia  
Republic of Bulgaria

**TRUSTEE**

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
United Kingdom

**PRINCIPAL PAYING AND TRANSFER AGENT AND REGISTRAR**

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
United Kingdom

**PAYING AND TRANSFER AGENT**

**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
United Kingdom

**LEGAL ADVISERS**

*To the Issuer and the  
Guarantor  
as to English law*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

*To the Issuer and the  
Guarantor  
as to Bulgarian law*

**Dimitrov, Tchompalov  
&Todorova OOD**  
74A Buzludza Str.  
1463 Sofia  
Republic of Bulgaria

*To the Trustee as to  
English law*

**Linklaters**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom