



Petrol Group

**CONSOLIDATED
ANNUAL REPORT 2007**

ACCOMPANIED BY

**INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007**

AND

**INDEPENDENT AUDITOR'S REPORT
AND SEPARATE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007**

May 2008

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Selected performance indicators

| Financial highlights | | 2007 | 2006 | 2005 | 2004 | 2003 |
|------------------------------|---------|---------|---------|---------|-------|-------|
| Revenue | BGN mln | 1,383.9 | 1,348.4 | 1,420.9 | 977.1 | 457.6 |
| | EUR mln | 707.6 | 689.4 | 726.5 | 499.6 | 234.0 |
| Gross margin ¹ | BGN mln | 139.2 | 121.2 | 119.7 | 94.9 | 83.6 |
| | EUR mln | 71.2 | 62.0 | 61.2 | 48.5 | 42.7 |
| | % | 10.1 | 9.0 | 8.4 | 9.7 | 18.3 |
| EBITDA ² | BGN mln | 40.0 | 38.7 | 37.9 | 42.4 | 25.7 |
| | EUR mln | 20.4 | 19.8 | 19.4 | 21.7 | 13.1 |
| | % | 2.9 | 2.9 | 2.7 | 4.3 | 5.6 |
| EBIT ³ | BGN mln | 22.4 | 19.7 | 16.0 | 14.8 | 4.4 |
| | EUR mln | 11.4 | 10.1 | 8.2 | 7.6 | 2.2 |
| | % | 1.6 | 1.5 | 1.1 | 1.5 | 1.0 |
| Net profit (loss) | BGN mln | (32.9) | 10.0 | 12.5 | 1.5 | 4.8 |
| | EUR mln | (16.8) | 5.1 | 6.4 | 0.8 | 2.5 |
| | % | (2.4) | 0.7 | 0.9 | 0.2 | 1.0 |
| Earnings per share | BGN | (0.30) | 0.12 | 0.11 | 0.01 | 0.04 |
| | EUR | (0.15) | 0.06 | 0.06 | 0.00 | 0.02 |
| Share price ⁴ | BGN | 5.28 | 4.33 | 3.78 | 3.16 | 3.96 |
| | EUR | 2.70 | 2.21 | 1.93 | 1.62 | 2.02 |
| Assets | BGN mln | 658.6 | 653.9 | 449.2 | 407.9 | 380.7 |
| | EUR mln | 336.7 | 334.3 | 229.7 | 208.6 | 194.7 |
| Debt ⁵ | BGN mln | 275.2 | 271.1 | 165.9 | 103.1 | 97.9 |
| | EUR mln | 140.7 | 138.6 | 84.8 | 52.7 | 50.0 |
| Shareholders' equity | BGN mln | 103.7 | 169.7 | 158.8 | 182.5 | 182.0 |
| | EUR mln | 53.0 | 86.8 | 81.2 | 93.3 | 93 |
| Working capital ⁶ | BGN mln | 18.0 | 95.4 | (12.2) | 6.2 | (7.5) |
| | EUR mln | 9.2 | 48.8 | (6.2) | 3.1 | (3.8) |
| Capital expenditure | BGN mln | 43.8 | 22.4 | 9.4 | 54.2 | 88.5 |
| | EUR mln | 22.4 | 11.5 | 4.8 | 27.7 | 45.2 |

¹ Gross margin is estimated as difference between revenue and cost of goods sold, the percentage of gross margin is calculated as gross margin is divided to the revenue.

² EBITDA - earnings before interest, tax, depreciation and amortization.

³ EBIT - earnings before interest and tax

⁴ Closing share price as of the end of respective year on Bulgarian Stock Exchange – Sofia

⁵ Includes interest-bearing loans and financial lease obligations

⁶ Working capital is estimated as difference between current assets and current liabilities.

| Financial ratios | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-------------|-------------|-------------|-------------|-------------|
| Return on equity (ROE) ⁷ (%) | (24.06) | 6.10 | 7.31 | 0.83 | 2.71 |
| Return on average capital employed (ROACE) ⁸ (%) | 6.54 | 6.38 | 6.41 | 5.56 | 1.90 |
| Return on assets (ROA) ⁹ (%) | 3.41 | 3.57 | 3.73 | 3.74 | 1.26 |
| Debt to assets ratio (%) | 41.79 | 41.46 | 36.93 | 25.26 | 25.69 |
| Shareholders' equity to Total assets (%) | 15.75 | 25.95 | 35.50 | 44.73 | 47.80 |
| Debt to equity ratio (%) | 265.28 | 159.75 | 104.47 | 56.48 | 53.75 |
| Debt to EBITDA (%) | 688.73 | 699.69 | 438.11 | 243.18 | 380.83 |
| Current ratio ¹⁰ | 1.05 | 1.35 | 0.94 | 1.04 | 0.93 |
| Inventories turnover (days) ¹¹ | 39 | 32 | 15 | 13 | 30 |
| Accounts receivable collection period (days) ¹² | 22 | 19 | 17 | 19 | 23 |

| Operating data | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-------------|-------------|-------------|-------------|-------------|
| Volume of fuel sales (million litres) | 848 | 877 | 1,044 | 765 | 246 |
| Volume of fuel sales (thousand tonnes) | 53 | 50 | 75 | 80 | 357 |
| Market share in retail fuel sales | 20% | 19% | 17% | 18% | 15% |
| Market share in wholesale fuel sales | 12% | 18% | 23% | 17% | 15% |
| Number of fuel stations, including | 519 | 492 | 460 | 451 | 446 |
| <i>Renewed fuel stations</i> | 149 | 99 | 83 | 81 | 71 |
| Number of storage facilities, including | 45 | 82 | 82 | 83 | 83 |
| <i>Storage facilities operating during the period</i> | 13 | 13 | 13 | 10 | 10 |
| Number of fuel tank truck | 34 | 34 | 28 | 31 | 67 |
| Percentage of credit card sales (%) | 24% | 22% | 17% | 14% | 13% |
| Number of personnel (at the end of the period) | 3,126 | 3,630 | 3,859 | 3,890 | 3,889 |

⁷ ROE (return on equity) is calculated as ratio between the net financial result for the period and the average shareholders' equity.

⁸ ROACE (return on average capital employed) is estimated as ratio between the EBIT and the average invested capital. The latter presents the difference between assets and current liabilities to non-related parties (that are not part of Petrol Holding Group).

⁹ ROA (Return on assets) presents the ratio between the EBIT and the average assets.

¹⁰ Current ratio – presents the ratio between current assets and current liabilities.

¹¹ Inventories turnover – presents the ratio between average stocks and the cost of goods sold, multiplied by 365 days.

¹² Accounts receivable collection period – presents the ration between trade receivable from non-retailed parties and revenue from non-related parties, multiplied by 365 days.

Management Board's message

Dear shareholders,

In 2007 the Bulgarian fuel market has witnessed the continuing trend, started in the previous year, for intensifying of the competition amongst the main market players and consequently for reduction of gross trade margins. Distributors of petroleum products in the country faced serious challenges because of the high volatility of crude oil prices on the international commodity markets.

During the current year, the Group (Petrol AD and its subsidiaries) accounted for good results regarding the sales of fuels and other goods. In the retail market in 2007 the volumes of fuel sold have increased by 13% and revenue from sales of fuel has risen by 22%. Group's revenue from sale of lubricants and other goods has grown by 23% and the revenue from sale of services has increased by 16%. The Group's total gross margin increased by BGN 18 million (EUR 9.2 million) in real terms and by 1% as a percentage of the revenue compared to 2006. This growth is due mainly to the improvement of profitability of wholesale fuel sales – the gross margin rose up to 8%.

In 2007 Petrol AD continued to invest in its retail network. The total number of modernized retail stations is 111, as the Company replaced the tanks of 48 sites with new ones, changed the appearance of 8 sites with the new Petrol visualization, and installed 77 vapour recovery units. As at the end of the year 206 retail stations were offering liquefied petroleum gas (LPG).

In October 2007 Petrol AD introduced innovative product to the Bulgarian fuel market – LPG enriched with fuel additives. The new fuel brand *Blue Force Gas* decreases the total fuel expense of automobiles up to 10%, improves the lubrication of engines and accelerates the power of automobiles by 8 to 10%. The new LPG meets all European requirements and exceeds the quality of products offered on the domestic market. In order to complete the range of products for automobiles with LPG fuel systems, the Company is currently developing and will launch on the market a set of special motor lubricants.

In 2007 the Company upheld the European Road Safety Charter. During its 75-year history the Company has completed different projects and initiatives that aimed to support the reduction of the consequences of “the war on Bulgarian roads”. By signing of this document Petrol AD committed to conduct different initiatives in the following two years which will support the all-European purpose – a 50% reduction of dead cases caused by road-traffic accident until 2011.

We would like to thank for the strong performance of the Group in 2007 to our shareholders, clients and partners for their support and trust, and last but not least, to the whole management staff and to all our colleagues from all companies in the Group for the shared values and for their contribution to the achievement of our common mission and objectives.

Management Board of Petrol AD

May 27, 2008

Group profile

Petrol - energy for people

Petrol AD has a leading role in petroleum products distribution in Bulgaria.

At the end of 2007 the company is among:

- The first Bulgarian private companies in terms of sales income;
- The four largest companies operating on the market of petroleum products in the country;
- The major private investors in Bulgaria;
- The companies with highest capitalization on Bulgarian Stock Exchange - Sofia;
- The biggest private taxpayers;
- The ten largest employers in the country.



The Group (Petrol AD and its subsidiaries) is the owner of the most well-developed network for distribution of petroleum products in the country, both wholesale and retail, which includes 519 retail stations, operating under the brands of “Petrol” and “Lukoil”, 45 petrol storage facilities and 3 petrol port terminals, all evenly spread throughout the country’s territory. In 2004 the Group has started large investment programme for modernization and reconstruction of its retail stations. In the end of 2007 the number of reconstructed new modern sites offering quality services is 148, which makes Petrol AD the owner of the biggest number of reconstructed sites of modern European style.

All kinds of unleaded gasoline and Euro diesel are sold in all trade sites of Petrol AD, LPG is offered in 206 retail stations. Other products available include the full range of Bulgarian and imported motor and transmission lubricants, brake and antifreeze fluids, automobile cosmetics, spare parts and accessories. In many sites additional facilities are placed such as car washes, inspection/service pits, pits for dismantling, mounting and balance of tyres and other services.

The company builds up its new retail stations as service stations. In part of the sites modern kiosk terminals are installed to provide internet access. Debit and credit cards are accepted, withdrawal/deposit operations with these cards are also allowed. In terms of offering this package of services and means of communication and payment Petrol AD has no real competitor on the domestic market. The newly built retail stations are commercial sites with convenience stores and fast-food places, furnished with professional machines and equipment. The range of products in the stores goes from automobile products to food and beverage (over 4,000 items of leading domestic and foreign producers), cosmetics, accessories, magazines and newspapers, etc.





The adopted technical and ecological standards in the company's sites exceed those required within the European Union. All products in the stations and storage facilities comply with all technological requirements and quality standards. High quality of products is a priority for the management. Company policy does not tolerate deviations from technology or ecological standards. The retail stations are in conformity with all valid standards and the best European and international practices.

Petrol AD is the sole petrol company in Bulgaria maintaining 5 laboratories for current fuel quality control. The laboratory in Varna is licensed to perform examinations on state level, thus able to provide internationally acknowledged certificates. Own stations are being tested 4 to 6 times annually. Other large companies operating on Bulgarian fuel market also examine their products in Petrol AD laboratories. The company works in close co-operation with a number of state institutions involved in fuel quality control.

History

The beginning of the 20th century saw an industrial boom in the biggest Bulgarian cities as a result of established trade contacts with European countries and the enthusiasm of well-educated young men. This economic boom was most obvious in Rouse – a town on the Danube River - where the Bulgarian petrol industry was born. The Veshkovi brothers invested their own capital to build a refinery and established First Bulgarian Petrol Industry. In 1921 in Bourgas, a city on the Black Sea coast, Standard Oil opened the first factory for the production of barrels and packaging.



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 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. During the period from 1992 to 1997, approximately 25% 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. Following a two year privatisation process, in 1999 a 51% 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. One of the obligations imposed on the Company at the time of its privatisation was that the Company establish an investment programme under which USD 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.



Mission

The company's mission is to accomplish a stable growth on shareholders' return in the long term along with commitment to its clients, employees, partners and generally to the society.

In achieving its corporate goals, the company's management relies significantly on professional behaviour, ethics and business integrity towards its partners. All projects in the investment programme are being implemented on an innovative basis and complied with the highest international standards for business management and environmental protection.

The company management believes in Petrol AD's development of a large public company as a leader in Bulgarian capital market. Clear sight for the future development and dividend policy, working with bond market instruments, standing by international standards and practices, together with implementation of modern high-technology information and communication decisions, prove Petrol AD to be a modern company with substantial opportunities for further development.

Strategy

The Group's main strategic objective is to maintain its leading position in the Bulgarian fuel distribution market, while providing shareholders with a stable long-term return. In achieving this Management Board is pursuing a strategy with five main elements:

- Asset rationalisation and enhanced efficiency;
- Expansion of retail network;
- Expanded product offering;
- Investment in network and brand; and
- Increase third party storage fees.



Asset rationalisation and enhanced efficiency

In 2007 the Group continued applying the streamlining strategy in business with further non-core assets disposals, excess capacity closure and technology-based productivity improvements.

In addition to the Group's two primary business lines, retail and wholesale fuel distribution; it also engages in a number of other businesses and owns several assets which are unrelated to these core business lines. In order to maximise the value of the Group's assets, it has begun to dispose of some of, and intends further to dispose of, certain non-core assets which do not relate to these primary business lines. The Management Board of Petrol AD has disposed of its interests in Transat AD and Trans Telecom OOD which have been moved to Transhold AD (a subsidiary of Petrol Holding AD. In 2007 Petrol AD transferred to the Ultimate parent company its interests in New-Co Zagora EOOD, Trans Operator AD, Varna Business Services EOOD, Eurocapital-Bulgaria AD, BPI EAD, Petrol Trade EOOD, Vratcata EOOD, Petrol Engineering AD and Petrol Card Service EOOD.

The Group has invested in Very Small Aperture Terminal technology (VSAT), allowing individual petrol stations to communicate with each other via a hub station. The Group has also invested in a SAP/R3 enterprise resource system that combines all single integrated software programme using a single database. The advantages of this system to the Group include management centralization, staff cost savings, accelerating the process of decision-taking and an opportunity for prompt price changes in petrol stations.



The Group has also reduced cost on railway infrastructure as a result of the subsidized share of this kind of fuel transportation in favour of the automobile transport. Since 2006 the Group operates new fleet of 34 tanker trucks with bigger tonnage and higher efficiency than the old fleet of 67 automobiles.

Expansion of retail network

The Company intends to increase its sales and market share by increasing the size of its site retail network by up to 90 stations by the end of 2010. This will be achieved via a combination of opening new sites in new high throughput locations (e.g. on Bulgaria's new motorway network) and via consolidation of its smaller independent competitors through franchise/ dealership arrangements and outright acquisition. The Group believes that substantial profitable growth can be achieved over the medium-term in the retail sector by consolidating the large number of independent fuel retailers, which together currently account for approximately 50% of retail sector fuel sales.

Expanded product offering

In conformity with the Group's plans to expand its retail product offering, particularly of higher margin non-fuel products and services, since 2000 the company has built new and renovated the existing convenience stores in 179 retail stations, as well as café-bars in 148 stations. The Group also intends to increase the number of stations offering internet access to customers through electronic kiosks, as well as other ancillary services, such as the Transcard credit card. The additional services usually generate greater fuel sales margins.

On the fuel side, the Group places a high priority on being at the forefront of customer demand for cleaner and improved performance fuels and plans for example, to rapidly increase its sales of compressed natural gas (CNG). In October 2007 Petrol AD introduced innovative product to the Bulgarian fuel market – LPG enriched with fuel additives. The new fuel brand *Blue Force Gas* decreases the total fuel expense of automobiles up to 10%, improves the lubrication of engines and accelerates the power of automobiles by 8 to 10%. The new LPG meets all European requirements and exceeds the quality of products offered on the domestic market. In order to complete the range of products for automobiles with LPG fuel systems, the Company is currently developing and will launch on the market a set of special motor lubricants.

Investments in the network and the brand

The Group plans to further increase sales of both petroleum and non-petroleum products through continuous investments in the upgrade of retail stations, including refurbishment and expansion of the total shop-floor areas. Additional resources will be invested in the further development of the "Petrol" brand, with increased advertising and the launch of Petrol branded goods and services as well as carrying out the customer loyalty programme.

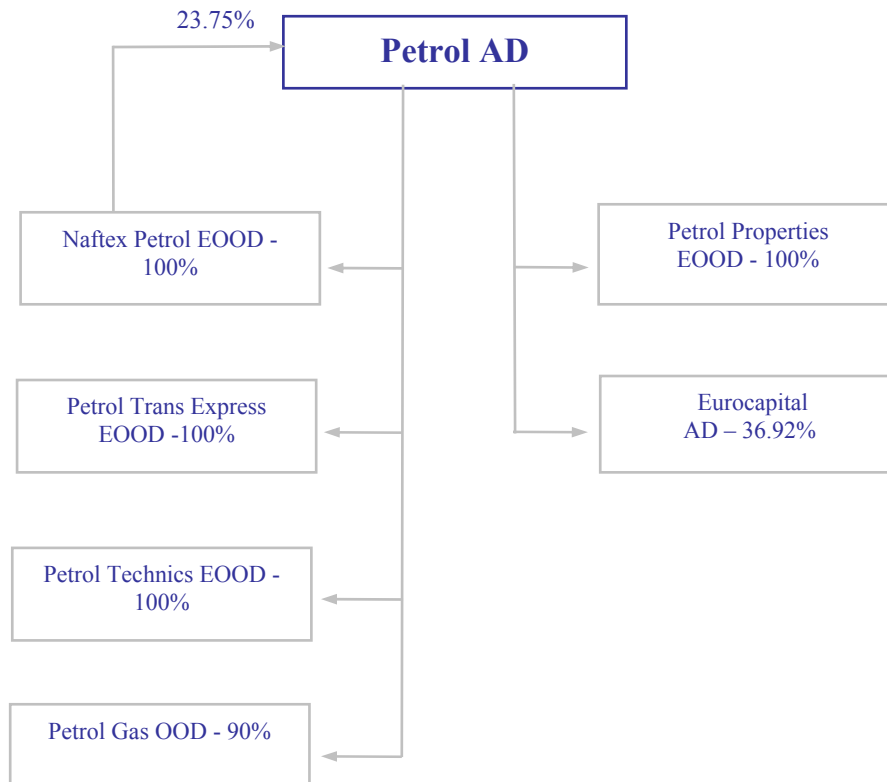
In 2007 Petrol AD continued to invest in its retail network. The total number of modernized retail stations is 111, as the Company replaced the tanks of 48 sites with new ones, changed the appearance of 8 sites with the new Petrol visualization, and installed 77 vapour recovery units. As at the end of the year 2006 retail stations were offering liquefied petroleum gas (LPG).

Increase third party storage fees

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 Bulgarian Crude Oil and Petroleum Products Mandatory Stocks Act 2003. This will require that all producers and importers of certain oil related products operating in Bulgaria maintain compulsory stocks of these products equal to 90 days of sales by 2012. In addition, the expected amendment of the Excise Duty Act allowing for inland bound warehousing of petroleum products may result in greater demand for its storage and distribution infrastructure in Bulgaria. The Group's strategy for exploiting this opportunity has three components. First, a marketing campaign among existing and potential customers to execute long-term storage contracts with the Group which cater for their increasing storage needs under the above legislation. Secondly, a gradual recommissioning of the 25 mothballed facilities which have a capacity of 400,000 m³. Thirdly, investment in key hub storage facilities over the next three years. In the short-term, there is sufficient excess capacity (647,000 m³) in the 15 storage facilities currently in operation, accounting for 827,000 m³ of the Group's capacity, to satisfy the anticipated increased demand.

Group structure

The diagram below sets out the principal subsidiaries and affiliates, which are divided into five primary categories, comprising retail sales of oil products, wholesale of oil products, storage, distribution and logistics in relation to oil products, other assets and non-core assets and services.



As of year end 2007, Petrol AD has interests in 5 subsidiaries:

- **Naftex Petrol EOOD**, 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, one of the leading suppliers of petroleum products to the wholesale market in Bulgaria. Following the acquisition of Naftex Petrol AD by Petrol AD, Naftex Petrol AD was transformed from a joint stock company to a limited liability company, with the two tier board structure of a supervisory board and management board being replaced by a single manager. As at 31 December 2007, the Petrol AD owned 100% of the issued share capital of Naftex Petrol EOOD;
- **Petrol Trans Express EOOD**, a solely owned limited liability company incorporated under the laws of Bulgaria and registered at the Bourgas District Court under company court file number 3203/2000, specialising in the transportation of fuels. Prior to 2001, the transportation of fuels was performed in-house by Petrol AD. Petrol Trans Express EOOD was incorporated in 2001 and it now operates the largest fuel transportation fleet in Bulgaria, with 34 tanker trucks and capacity of 625 thousand litres of light fuel and 170 thousand litres of LPG. In addition to transporting fuel to Petrol AD's network of petrol stations, Petrol Trans Express EOOD has an agreement to transport fuel to each of Opet's and Lukoil's retail networks, and fuel to Naftex Petrol EOOD's wholesale customers. As at 31 December 2007, Petrol Trans Express EOOD was wholly owned by Petrol AD;

- **Petrol Technics EOOD**, 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, specialising in construction, maintenance and servicing of petrol stations and petrol storage facilities. Petrol Technics EOOD provides services both to Petrol AD and to petrol stations and storage facilities owned or operated by third parties. As at 31 December 2007, Petrol Technics EOOD was wholly owned by Petrol AD;
- **Petrol Gas OOD**, a limited liability company incorporated under the laws of Bulgaria and registered at the Sofia City Court under company court file number 7833/2007, specialising in wholesale trade with LPG. As of 31 December 2007, Petrol AD owns 90% of the issued share capital of Petrol Gas OOD;
- **Petrol Properties EOOD**, 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, specialising in trade with movable property and real estates. As of 31 December 2007, Petrol Properties EOOD was wholly owned by Petrol AD.

Management bodies

The parent company has two-tier board structure, which includes Management Board (MB) and Supervisory Board (SB). Below are presented the names and the functions of the members of the Supervisory Board and Management Board of Petrol AD. For each member is presented a short biographical information.

Supervisory Board

| | |
|----------------|----------|
| Mitko Sabev | Chairman |
| Stoyan Krastev | Member |
| Ivan Neykov | Member |

Management Board

| | |
|--------------------|---|
| Denis Jersov | Chairman |
| Svetoslav Yordanov | Chief Executive Officer |
| Tsvetan Dimitrov | Executive Director, Finance and Economics |
| Ivan Kostadinov | Executive Director, Sales and Marketing |
| Kaloyan Karshev | Executive Director, Investments and Technical Support |

Mitko Sabev was born on 8 October 1961. He graduated the Naval Academy in Varna and worked as a captain's mate at Navigation Maritime Bulgare. He is the co-founder and 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 is 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 Law School at Sofia University St. Kliment Ohridski. He has been working for the biggest companies and banking institutions in Bulgaria. He is Chairman of the Board of directors of Jurex Consult AD. He has been member of the Supervisory Board of United Bulgarian Bank and member of the Management Board of Bulgarian Association of Licensed Investment Intermediaries.

Ivan Neykov was born on 17 April 1955 in Haskovo. He graduated Law School at Sofia University St. Kliment Ohridski. Expert in Law of Labour and Insurance Law, additional qualification in industrial relations, collective labour disputes, and pension funds management. He is Chairman of the Management Board of Balkan Institute for Labour and Social Policy. He was Minister of Employment and Social Affairs, vice chairman of Confederation of independent trade unions in Bulgaria – CITUB. At this time he is municipal councillor of Sofia Municipality. Chairman of the Standing Committee for Budget and Finances, member of the Standing Committee of Economical Policy and Public Property and of the Standing Committee of Engineering Infrastructure, Water Supply and Energy Efficiency. 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, labour disputes. He has working level knowledge of Russian language.

Denis Jersov was born on 12 April 1966 in Cheliyabinsk, Russia. In 1988 he graduated the Tumen Industrial University as mine engineer – 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 company Conex, where the majority share is held by Russian state-owned oil trust, being one of the biggest Russian crude oil exporting companies in those days. In the end of 1991 he founded the Naftex Group.

Svetoslav Yordanov was born 28 May 1960 in Bourgas. He graduated the University of Economics in Varna in Accounting and control. He worked in Neftochim Bourgas as Deputy Chief accountant, Financial Director and Commercial Director. He has been Executive director of Multigroup AD. From 1999 is Executive Director of Petrol AD. He is fluent in Russian and English languages.

Tsvetan Dimitrov was born 10 August 1974. He has Master's degree in Economics and Industrial management at the University of National and World Economy in Sofia. For 5 years holds different positions in finances in the management of Petrol AD. His previous position was Head of Controlling Department.

Ivan Kostadinov was born 28 May 1974. He has Master's degree in Insurance and Social Work at the University of National and World Economy in Sofia. For 4 years held different positions in the Commercial Department. His previous position was Sales Supervisor.

Kaloyan Karshev was born 5 November 1969. He has Master's degree in Oil Technology at the University of Chemical Technology and Metallurgy in Sofia and Master's degree in Ecology and Sustainable Development in Queen Mary University in Great Britain. He works since 11 years in Petrol AD where holds different positions, his previous position was Head of Technical Department. He is responsible for the fuel quality control.

Operating and financial review

1. Analysis of the market environment

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

Macroeconomic conditions in Bulgaria

The operations of the Group are influenced by the overall economic situation in the country, the successful implementations of market-driven economic reforms, GDP growth and changes in purchasing power of Bulgarian consumers. In general the variation of consuming fuels is commensurate with the variation of GDP. Increase in GDP in 2007 is 6.2% (2006: 6.3%), and the increase of the real income of the consumers in the current year is 7.7% (2006: 2.7%)¹³ Retail fuel market reports growth of 7% in 2007 on the basis of volume of sold fuels. The running economical reforms after Bulgaria became a member of the European Union on January 1, 2007 should have a beneficial impact on the Bulgarian economy and consequently there are expectations for improvement of the microeconomic environment in which the Group operates.

Competition

In 2007 the retail market of fuels in Bulgaria continued the trend of growing competition, decrease of retail prices and gross trade margins. In the current year investors' exodus from gaining one or several market object has appeared. There are trends toward small independent player leaving the business with fuels as their market share dropped by 15.9% to 28.4% in 2007. Economies of scale were found to be fatal for the small businesses and they started to look for survival in disposal or franchising schemes.

The major competitors on the retail market – Lukoil Bulgaria EOOD, Shell Bulgaria EAD, OMV Bulgaria EOOD and Eko Bulgaria EAD were aggressive with regard to their plans about construction and acquisition of new sites. Lukoil Bulgaria EOOD announced a large investments programme and built significant number of new sites. Thus the company expanded its fuel station network and increased its market share. Lukoil intends to invest USD 400 million until 2011 and plans to extend its retail network to 300 fuel stations until 2014. The Austrian fuel chain OMV relies mainly on franchise contracts by joining and building of new small sites under the specially created brand *Avanti*. The company intends to build retail network of 44 *Avanti* sites until 2010 and plans to construct new OMV sites on strategic locations. The strategy of Shell Bulgaria EAD is to achieve leader position on the market through partner network of retail stations, currently the number of company's fuel stations is 109. Only the Greek fuel chain Eko Bulgaria focuses on construction of new retail stations as the company plans to invest about BGN 150 million in the next two year and to double the number of its sites. Two years ago a new big competitor entered the market – Rompetrol Bulgaria AD. Through franchise and acquisition of sites as at the end of 2007 Rompetrol Bulgaria AD already owns a chain of 35 fuel stations.

The major competitors on the wholesale market of fuels are Lukoil Bulgaria EOOD, as exclusive distributor of Lukoil Neftohim Burgas AD, Rompetrol Bulgaria AD, OMV Bulgaria EOOD. The wholesale market prices were traditionally linked with the pricing of the only fuel producer in the country Lukoil Neftohim Burgas AD. In August 2006 the subsidiary Naftex Petrol EOOD changed the pricing basis of its fuels on the wholesale market, applying the international market daily quotation as reported at the Platt's European Marketscan Bulletin.

¹³ Based on published data form the National Institute of Statistics, from 15th April 2008

Trade margins

Despite the increasing volume of sales the gross profit per litre continues the trend of decrease in 2007. This is due, on one hand, to the gradual increase of excise duties and other taxes, which raise the cost price of the fuels, and on the other hand, to the increasing prices of the producers, the decrease of gross trade margins as a result of the strong competition and the striving for new customers. The competition between the companies in relation to offered different discounts for credit card payments and other promotions put extra pressure on the profits of the business.

Product mix

The Bulgarian transportation fuels market has witnessed over the recent years a shift from gasoline to diesel and LPG. There is a clear trend in decline of consumption of 92 octane gasoline for account of increase of lower priced LPG. In 2007 the only fuel producer in the country Lukoil Neftohim Burgas AD discontinued production of 92 octane gasoline and thus redirected fuel consumption to alternative fuel types. Diesel consumption also increases, though in slower pace, following the launching of modern diesel engines and the fact that the transportation industry uses mainly diesel fuel.

Relationships with suppliers

The Group maintains long lasting relationships with its major suppliers. For the retail business the main supplier is Lukoil Bulgaria EOOD, by virtue of the Retail Fuel Supply Agreement, concluded in 2001. In 2007 Lukoil Bulgaria EOOD supplied 433 retail stations within the scope of the agreement. Other 50 retail stations were supplied by the Group's wholesale arm Naftex Petrol EOOD.

On the wholesale side the Group has taken measures to diversify its supply base. In 2007 the major suppliers are Tupras (Turkey), International Petroleum Group (Kuwait), Hellenic Petroleum (Greece), Vyand Oil OOD and Ross Oil EOOD.

Legislative changes

The Group's results of operations are affected by the amendments in the existing legislation in Bulgaria. The most important piece of legislation which will influence the Group's business is the Law on the Compulsory Reserves of Oil and Oil Products requiring all importers and producers 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 2005 which has to reach 90 days by 2012. During 2007 the Group stored 44,447 cubic meters of products in compliance with the law (2006:24,982 cubic meters).

With regard to the admission of Bulgaria as a member of European Union effective January 1, 2007 the requirements for the quality of the petroleum products and the ecological standards have been raised in accordance with Directive 1999/32/ of the EU Council.

Increase in excise duties

One of the conditions for Bulgaria's accession to the European Union is 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. This minimum level should be reached in Bulgaria in 2011. Such increased duties may result in lower gross margins of the Group.

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 demand for heating gas oil is typically highest in the first and last quarters of each year. The demand for gasoline is highest in the second and third quarters due to annual vacations. Therefore, the Group's results of operations in years with severe winters and/or long summers reflect higher sales of heating gas oil and gasoline.

Fluctuation in crude oil and oil product prices

Fluctuations in prices of crude oil and oil products affect the Group's sales and cost of sales. Increases in crude oil prices leads to increased sales values, but at the same time this may lead to a reduction in the demand for petroleum products and to adjustment of margins to reflect the fall in consumer demand.

2. Results from operations

Revenue

Group's consolidated revenue for 2007 at the amount of BGN 1,391.3 million (EUR 711.4 million) increased by 2.6% compared to 2006. The following table presents the amounts of revenue for the period 2005 – 2007 on a consolidated basis and also by separate business segments:

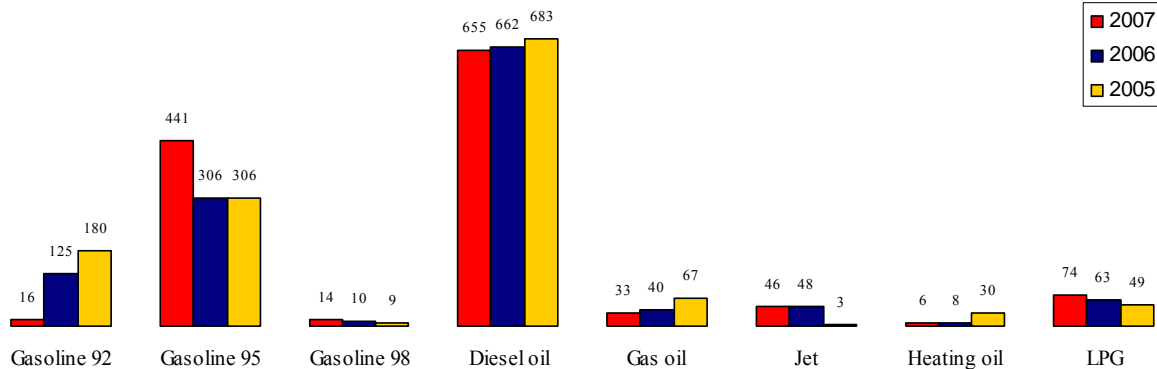
| | | 2007 | 2006 | 2005 |
|---------------------------------|----------------|----------------|----------------|----------------|
| Sales revenue | BGN mln | 1,383.9 | 1,348.4 | 1,420.9 |
| | EUR mln | 707.6 | 689.4 | 726.5 |
| Other income | BGN mln | 7.4 | 8.0 | 3.7 |
| | EUR mln | 3.8 | 4.1 | 1.9 |
| Total revenue, including | BGN mln | 1,391.3 | 1,356.4 | 1,424.6 |
| | EUR mln | 711.4 | 693.5 | 728.4 |
| Retail | BGN mln | 777.0 | 633.1 | 537.7 |
| | EUR mln | 397.3 | 323.7 | 274.9 |
| Wholesales | BGN mln | 602.3 | 706.8 | 879.3 |
| | EUR mln | 308.0 | 361.4 | 449.6 |
| Other activities | BGN mln | 12.0 | 16.5 | 7.6 |
| | EUR mln | 6.1 | 8.4 | 3.9 |

The major part of Group's sales revenue is sales of goods (96% in 2007). Their amount in 2007 is BGN 1,327.6 million (EUR 678.8 million) and compared to 2006 they have increased by 2.3%. Sales of goods comprise mainly of retail and wholesale sales of fuel (97%). The amounts of sales of fuel (excluding intra-Group sales) for the period 2007-2005 are as follows:

| | | 2007 | 2006 | 2005 |
|----------------------------|----------------|----------------|----------------|----------------|
| Retail | BGN mln | 702.1 | 573.9 | 475.7 |
| | EUR mln | 359.0 | 293.5 | 243.2 |
| Wholesale | BGN mln | 582.4 | 688.9 | 859.8 |
| | EUR mln | 297.8 | 352.2 | 439.6 |
| Total sales of fuel | BGN mln | 1,284.5 | 1,262.8 | 1,335.5 |
| | EUR mln | 656.8 | 645.7 | 682.8 |

The overall increase in sales of fuel of 1.7% during the current year compared to 2006 is due mainly to the achieved growth of 22% in retail sales, which compensates the decline in wholesale sales by 15% (see also *Retail market* and *Wholesale market*). During the current year the relative share of retail sales has increased at the expense of decreased share of wholesale sales. From 45% in 2006 retail sales rose to 55% of consolidated sales of fuel in 2007. This is due to the growth of turnover in the retail network and also to the decline in wholesale volumes.

The movement in revenue from sales of the major type of oil products traded by the Group during the period 2007-2005 is presented on the following diagram:



Retail market

The Group's retail sales are made through a network of retail stations owned and/or operated by Petrol AD. These retail stations are spread throughout Bulgaria giving the Group comprehensive geographic coverage. As at the end of 2007 the Group had 519 working retail stations (2006: 492).

The table below sets out sales of fuel in retail stations by volume and value for the years 2005 to 2007.

| | | 2007 | 2006 | 2005 |
|---|---------|-------|-------|-------|
| Volume of retail sales (million litres) | | 474 | 419 | 352 |
| <i>incl. corporate clients</i> | | 125 | 86 | 49 |
| Revenue from retail sales | BGN mln | 702.1 | 573.9 | 475.7 |
| | EUR mln | 359.0 | 293.5 | 243.2 |
| Market share ¹⁴ | | 20% | 19% | 17% |

During the current year the volume of fuel sold through the retail stations rose by 13% which led to an increased in revenue from retail sales to BGN 702.1 million (EUR 359 million). This increase is mainly due to the reported growth in the corporate clients and also to the increase of the volume of sales to the corporate clients (45%). As a result of the overall increase in retail volumes, the Group enlarged its presence in the retail market increasing its market share to the 20% at the end of 2007.

¹⁴ Source: Internal corporate information

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 2007 and 2006:

| | 2007 | | 2006 | |
|----------------------------------|-----------------|----------------|-----------------|----------------|
| | number of sites | million litres | number of sites | million litres |
| Group owned and Group operated | 291 | 396 | 405 | 388 |
| Dealer owned and dealer operated | 70 | 25 | 41 | 14 |
| Group owned and dealer operated | 158 | 53 | 44 | 11 |
| Dealer owned and Group operated | - | - | 2 | 6 |
| Total | 519 | 474 | 492 | 419 |

In 2007 Petrol AD continued developing its programmes for franchising (joining independent owners of single stations or small chain of stations under the Petrol trade mark) and for letting of own retail stations for operation by dealers. As a result from these programmes, as at the end of 2007 the number of franchisee operated stations has risen approximately by 71% and the number of dealer operated retail stations has risen about 3 times compared to the end of 2006. The total volume of sales made through the franchisee and dealer retail stations in 2007 has risen more than 2 times compared to the previous year. The retail stations owned by the Group and operated by dealers made the major contribution (76%) to the increase of sales volumes during the year.

The following table sets out Group's retail sales of fuel by major types of oil products:

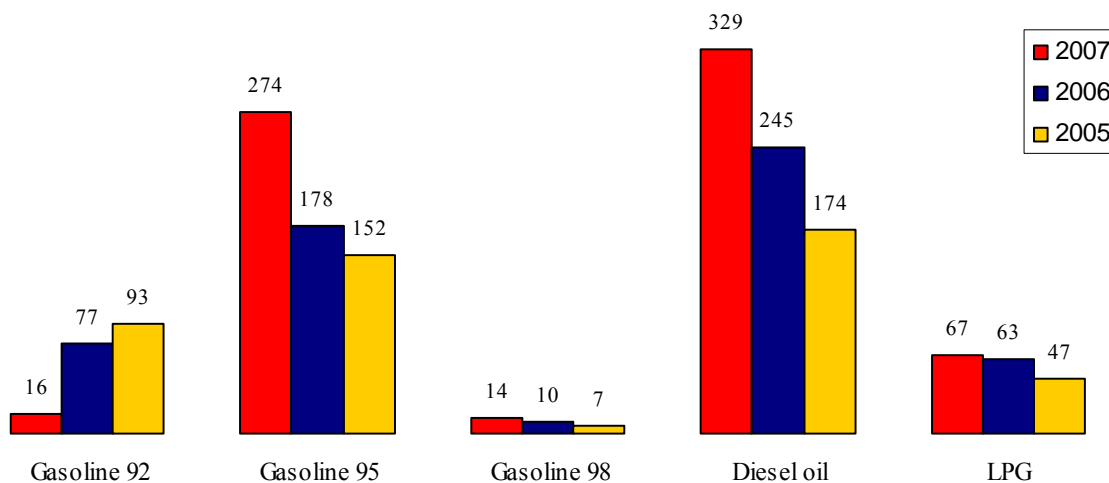
| | | 2007 | 2006 | 2005 |
|-----------------------------------|----------------|--------------|--------------|--------------|
| Gasoline 92* | BGN mln | 15.5 | 77.4 | 92.6 |
| | EUR mln | 7.9 | 39.6 | 47.3 |
| Gasoline 95* | BGN mln. | 273.8 | 177.5 | 151.6 |
| | EUR mln | 140.0 | 90.8 | 77.5 |
| Gasoline 98* | BGN mln | 13.5 | 9.5 | 6.9 |
| | EUR mln | 6.9 | 4.9 | 3.5 |
| LPG | BGN mln | 67.3 | 62.8 | 47.1 |
| | EUR mln | 34.4 | 32.1 | 24.1 |
| Diesel oil | BGN mln | 329.3 | 244.5 | 173.9 |
| | EUR mln | 168.4 | 125.0 | 88.9 |
| Other fuel | BGN mln | 2.7 | 2.2 | 3.6 |
| | EUR mln | 1.4 | 1.1 | 1.9 |
| Total retail sales of fuel | BGN mln | 702.1 | 573.9 | 475.7 |
| | EUR mln | 359.0 | 293.5 | 243.2 |

* 92, 95 and 98 octane unleaded fuel

There was a continuous decline in sales of gasoline 92 during the current year (80%), which was a result of the trend witnessed over the recent years for shift in the consumption from gasoline 92 to the higher octane gasoline 95 and to the LPG. The growth in sales of gasoline 95 is 54% and in the sales of LPG is 7%. The increase in LPG sales volume is also due to the newly built LPG modules on 21 sites during 2007. There was a significant increase in sales of gasoline 98 during the current period (42%). This is due to the continuous trend for renewal of the automobile fleet in the country with higher class automobiles and also to the reported increase in the number of high-end clients in the refurbished and newly built retail stations.

The most significant increase was in the sales of diesel oil, which had risen by BGN 84.8 million (EUR 43.4 million) compared to 2006. The growth of 35% was in line with the increase in the volume of sales of 25% and was a result from the development of the corporate clients' network and is also due to the increasing number of diesel engine automobiles in the country.

The movement in revenue from retail sales of the major type of oil products during the period 2007 – 2006 is presented on the following diagram:



Wholesale market

The Group's wholesale sales are made through a network of storage facilities operated by Naftex Petrol EOOD as well as through Petrol Gas OOD, a subsidiary established in 2007 and specialized in trade with LPG. During 2007 the Group used 13 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 100 rail tank cars for transportation of LPG and has total gas storage capacity of 500 cubic metres.

The table below sets out the result of the period 2007-2005:

| | | 2007 | 2006 | 2005 |
|---|---------|-------|-------|-------|
| Share of Group's wholesale sales | | 100% | 100% | 100% |
| Volume of wholesale sales (million litres) ¹⁵ | | 374 | 457 | 690 |
| Volume of wholesale sales (thousand tonnes) ¹⁶ | | 53 | 50 | 77 |
| Revenue from wholesale sales | BGN mln | 582.4 | 688.9 | 859.8 |
| | EUR mln | 297.8 | 352.2 | 439.6 |
| Market share ¹⁷ | | 12% | 18% | 23% |

In August 2006 Naftex Petrol EOOD introduced a new pricing strategy based upon international quotations for petroleum products, which led to a significant decrease of wholesale volumes during the past two years. In 2007 the volumes of wholesale sales declined by 18% to 374 million litres. In accordance with the new strategy the wholesale prices for distributors on the domestic market are calculated with reference to a formula based on the international daily quotations as reported at the Platt's European Marketscan Bulletin plus fixed premiums for different petroleum products. On the other side, in line with the tradition of many years, the wholesale pricing of fuel products in Bulgaria is made with reference to the base price of Lukoil Neftochim Bourgas AD, the only manufacturer in the country. Thus, when the international prices rapidly shift up, the resulting prices of Naftex Petrol EOOD automatically become higher than those of its competitors and the Group experiences lower volume sales. As a result from the decline in sales volumes, in 2007 the Group's revenue from sales on the wholesale market decreased by BGN 106.5 million (EUR 54.5 million) compared to 2006.

Group's LPG wholesale sales are wholly made by the newly-created subsidiary Petrol Gas OOD. In 2007 the major part of LPG volumes of sales are realized outside the country.

The following table sets out Group's wholesale sales of fuel by major types of petroleum products

| | | 2007 | 2006 | 2005 |
|--------------------------------------|----------------|--------------|--------------|--------------|
| Gasoline 92 | BGN mln | - | 48.0 | 87.6 |
| | EUR mln | - | 24.5 | 44.8 |
| Gasoline 95 | BGN mln | 167.0 | 128.6 | 154.8 |
| | EUR mln | 85.4 | 65.8 | 79.1 |
| Jet A1 | BGN mln | 45.8 | 48.0 | 3.1 |
| | EUR mln | 23.4 | 24.5 | 1.6 |
| Diesel oil | BGN mln | 325.2 | 417.6 | 509.4 |
| | EUR mln | 166.3 | 213.5 | 260.5 |
| Gas oil | BGN mln | 30.7 | 37.9 | 63.9 |
| | EUR mln | 15.7 | 19.4 | 32.7 |
| Heating oil | BGN mln | 5.9 | 7.8 | 29.5 |
| | EUR mln | 3.0 | 4.0 | 15.1 |
| Other fuel | BGN mln | 7.8 | 1.0 | 11.5 |
| | EUR mln | 4.0 | 0.5 | 5.8 |
| Total wholesale sales of fuel | BGN mln | 582.4 | 688.9 | 859.8 |
| | EUR mln | 297.8 | 352.2 | 439.6 |

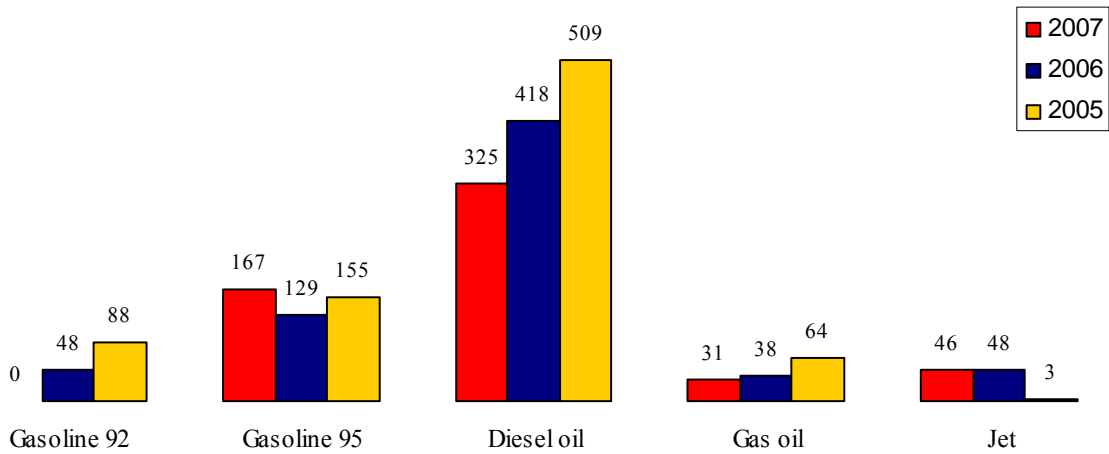
¹⁵ Wholesale volumes for all types of gasoline, diesel and gas oil are measured in litres

¹⁶ Wholesale volumes for jet, LPG, heating oil and other heavy fuels are measured in tonnes

¹⁷ Source: Internal corporate information

There was a decrease in volumes of sales of all types of fuel in 2007, except for the sales of gasoline 95, which rose by 30%, compared to 2006. During the year the sales of gasoline 92 is discontinued due to the poor consumers' interest and to the shift in consumption from gasoline 92 to the higher octane gasoline and LPG.

The movement in revenue from wholesale sales of the major type of petroleum products during the period 2007 – 2005 is presented on the following diagram.



Gross margin

The Group's total gross margin calculated as a percentage of consolidated revenue has risen from 9% for 2006 to 10.1% for 2007. The increase of total gross margin by BGN 18 million (EUR 9.2 million) is a positive sign about the development of the business under the current circumstances of intensified competition in the retail and wholesale markets and the constant increase in the crude oil and petroleum product prices. The growth in the total gross margin is due mainly to the increase of gross margin in the wholesale market up to 7.58%. In 2007 the average gross margin in the retail market continued the trend from the previous year and declined to 9.95%. The Group's gross margin calculated as percentage of consolidated revenue from sales of goods is 6.25% in 2007 compared to 5.44% in 2006.

Operating expenses

Hired services

Hired services include various expenses as transport, commissions, repair and maintenance of assets, advertising, consulting and training expenses, security, insurance, rents and other expenses. In 2007 hired services increased by 8.6% to BGN 40.7 million (EUR 20.8 million) which is due mainly to the growth of commissions by 54%. The greater amount of the latter is a result of growth in dealer and management commissions as a consequence to the development of programmes for franchising and lending of own retail stations for operation by dealers. Group's insurance expenses increased by 131% to BGN 2.4 million (EUR 1.2 million) which is due mainly to the strategy for greater social responsibility adopted by the Management. The advertising expenses increased significantly in 2007 – by 32.9% to BGN 5.2 million (EUR 2.7 million) due to the aggressive advertising policy, applied since 2006. There is also sizeable increase in rents and consulting and training expenses by BGN 1 million (EUR 0.5 million) and BGN 0.9 million (EUR 0.4 million), respectively. Group's consolidated financial statement also show a decline in transport expenses declined by 47.5% to BGN 4.8 million (EUR 2.5 million) due to the decreased volume of transported fuels during the year. As a result of the conduction of policy for reconstruction and modernization of old fuel stations, the Group reports decrease in expenses for current repair and maintenance by 40% to BGN 2.6 million (EUR 1.3 million).

Staff costs

Staff expenses include remuneration, social expenses and other compensations, paid to the Group's employees. In 2007 staff expenses increased by 4.28% to BGN 28.3 million (EUR 14.5 million), which is due to the growth of remuneration by BGN 1.6 million (EUR 0.8 million). Social expenses remained almost at the level of the previous year.

Depreciation and amortisation

Depreciation and amortisation charges on fixed tangible and intangible assets and investment property are calculated on the basis of the useful life of assets by applying a straight-line method (see also note 3.1. to the consolidated financial statements). Depreciation expenses of the Group show a decrease of 7.5% to BGN 17.6 million (EUR 9.0 million) in 2007 compared to BGN 19 million (EUR 9.7 million) in 2006.

Materials and consumables used

Fuels, spare parts, office consumables, advertising materials, public utilities and other expenses are presented in the Group consolidated financial statements as expenses for materials and consumables. In 2007 these expenses decreased by BGN 1.1 million (EUR 0.6 million) to BGN 11.3 million (EUR 5.8 million). During 2007 all expenses decreased except expenses for spare parts and electricity, which increased by BGN 0.2 million (EUR 0.1 million) each. The most significant is the decline in water expenses (by 46%), advertising expenses (by 43%) and heating expenses (by 31%).

Impairment of assets

The expenses for impairment of assets in the current year were due to the impairment of receivables for expenses incurred (state charges and lawyers' fees at the amount of BGN 4.7 million (EUR 2.4 million)) under a litigation with a Counterparty as well as to the impairment of irrecoverable trade receivables and litigation and writs. In 2007 the expenses for impairment of assets amounted to BGN 6.9 million (EUR 3.5 million), which presents an increase by BGN 6.3 million (EUR 3.2 million) compared to 2006.

Other operating expenses

The expenses for shortages of assets, penalties and defaults, business trips, entertainment expenses and sponsorship, withholding taxes and municipality taxes, scrapped goods and fixed assets are presented as other expenses in the consolidated financial statements. These expenses amounted BGN 19.5 million (EUR 10 million) in 2007. The main reason for the increase of 52.3% compared to 2006 is the greater loss on liquidation and sales of non-current assets – BGN 4.8 million (EUR 2.4 million) compared to BGN 0.4 million (EUR 0.2 million) in 2006. During the year entertainment expenses and sponsorship increased by BGN 2.7 million (EUR 1.4 million) as well as withholding and municipality taxes by BGN 1 million (EUR 0.5 million). In 2007 the Group reported decline of expenses for penalties and defaults by BGN 1.6 million (EUR 0.8 million) and of expenses for business trips by BGN 0.3 million (EUR 0.2 million).

Profit from operations

The Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) increased from BGN 38.7 million (EUR 19.8 million) in 2006 to BGN 40 million (EUR 20.4 million) in 2007. Increase of EBITDA by BGN 1.3 million (EUR 0.7 million) is due mainly to the growth of gross margin by BGN 18 million (EUR 9.2 million), which is a result from the increase in consolidated revenue. The effect of the increase in operating expenses (excluding amortisation and depreciation) by BGN 16.2 million (EUR 8.3 million) to BGN 106.7 million (EUR 54.6 million) was entirely offset by the significant increase in turnover on the retail market.

The greater value of EBITDA has positive effect on Group's earnings before interest and taxes (EBIT), which increased its value by 14% to BGN 22.4 million (EUR 11.5 million) compared to BGN 19.7 million (EUR 10.1 million) in 2006. Reduction of amortisation and depreciation charges by 7.5% also has a positive effect on EBIT.

Net finance costs

The Group's finance income and costs consist of interest expenses and income, gains and losses from foreign exchange rates, gains and losses on dealing with derivatives and other. Interest expense represents the interest paid by the Group on loans from banks, debenture loans and finance leases. The contracted margins on interest bearing bank loans granted to the Group varied in the range between 1% and 4.5% above SOFIBOR, LIBOR or EURIBOR. The interest rate on the two debenture loans is fixed at 8.375%. In 2007 the interest expense increased materially to BGN 25.7 million (BGN 13.1 million) compared to BGN 11.2 million (EUR 5.7 million) in 2006. The increase of BGN 14.5 million (EUR 7.4 million) is due to higher interest on Euro note issue, which was used for refinancing of existing bank loans, as well as to the fact that the Euro notes were issued in October 2006 and consequently interest expenses were accrued only for the last two months of the year. During the current year Group's interest income increased by 44.5% to BGN 6.8 million (EUR 3.5 million) compared to BGN 4.7 million (EUR 2.4 million) in 2006. The growth is due mainly to increase in interest on trade and other receivables by BGN 1.4 million (EUR 0.7 million).

In 2007 the Group sold its interest in seven subsidiaries and two associates. As a result of these deals the Group reports net gain at the amount of BGN 2.1 million (EUR 1.1 million) (see also note 15 to the consolidated financial statements as of December 31, 2007).

In 2007 the Group continued to deal with financial derivatives and at the end of the year reported loss of BGN 40.1 million (EUR 20.5 million).

The trend in the Group's foreign exchange gains and losses generally follows movements in the exchange rate of the U.S. 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 Euro. In 2007 the financial statements of the Group showed exchange rate loss of BGN 0.4 million (EUR 0.2 million).

As a result of the above mentioned changes in finance income and expenses, Group's net finance costs increased by BGN 54.1 million (EUR 27.7 million) to BGN 58.6 million (EUR 30 million).

3. 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.

The main ratios, which describe the financial position of the Group, are presented in the first section of this annual report *Selected Performance Indicators*. During 2007 part of liquidity indicators worsened their values and another part showed improvement of group's liquidity. In the current year accounts receivable collection period increased to 22 days compared to 19 days in 2006, which was caused by the increase in trade receivables by BGN 13.5 million (EUR 6.9 million) and by the growth in revenue from non-related parties by BGN 72.3 million (EUR 40 million). In 2007 the average length of time necessary for the goods to turn over increased to 39 days compared to 32 days in 2006. This is due to the higher balance of goods at the end of the current year as result of management's decision for support of higher inventories levels.

The current ratio decreased its value significantly in 2007 after its sharp increase in 2006. Reduction of liquidity is a result of the fact that the Group's current liabilities increased faster (32.6%) than the current assets (2.94%). Growth of current liabilities is due to increase in trade payables and current interest bearing loans. The latter increased by BGN 20.5 million (EUR 10.5 million) in 2007 due to the growth of liabilities under bank loans by BGN 10.4 million (EUR 5.3 million) and to the fact that the maturity of first bonds issue of Petrol AD is in 2008.

In 2007 the total amount of Group's current assets increased with BGN 10.7 million (EUR 5.5 million). Besides the above-mentioned increase of inventory and trade and other receivables, the growth of current assets is due to the increase in cash and cash equivalents by BGN 4.4 million (EUR 2.2 million) to BGN 67.4 million (EUR 34.5 million).

The variation of current assets and current liabilities result in lower working capital at the end of 2007 – BGN 18 million (EUR 9.2 million). In 2006, as a comparison, the working capital of the Group was BGN 95.4 million (EUR 48.8 million).

In 2007 the consolidated indebtedness of the Group increased by BGN 4.1 million (EUR 2.1 million) to BGN 275.2 million (EUR 140.7 million). This growth is due to the greater amount of current liabilities under bank loans - BGN 59.1 million (EUR 30.2 million) in 2007 compared to BGN 48.7 million (EUR 24.9 million) in 2006. Simultaneously, during the current year Group's liabilities under trade loans to related parties decreased as a result of the sale of seven subsidiaries whose net assets were not consolidated as of December 31, 2007. Regardless of the increase in consolidated indebtedness, debt to equity ratio remained relatively constant and was close to the optimal value.

In 2007 the Group reports greater return on average invested capital 6.54% compared to 6.38% in 2006.

Disclosure of additional information in compliance with regulatory requirements

In compliance with the requirements of Appendix 10 to the Regulation No 2 of the Financial Supervision Commission, as presented below the Group discloses information about the loans, received or granted by the issuer, its subsidiaries or parent company (the ultimate controlling party), including its terms, purpose and maturity, as well as information about guarantees received and provided and liabilities assumed, including such to related parties.

- **Issuer**

Loans granted

| Type of borrower | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|------------------------------|-------------------------|------------|--|
| Ultimate controlling party | 3-month SOFIBOR plus 2% | 21.10.2011 | 44,698 |
| Subsidiary company | 8.375% | 21.10.2011 | 119,210 |
| Subsidiary company | 8.5% | 01.08.2008 | 2,262 |
| Company under common control | 8% | 31.12.2006 | 50 |
| Total loans granted | | | 166,220 |

Loans and deposits received

| Type of lender/depositor | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|--|-------------------------|------------|--|
| Commercial bank | 5.44% | 17.11.2008 | 705 |
| Total bank loans | | | 705 |
| Corporate bond noteholders | 8.375% | | 15,046 |
| Corporate bond noteholders | 8.375% | 26.10.2011 | 195,591 |
| Total debenture loans | | | 210,637 |
| Subsidiary company | 3-month SOFIBOR plus 1% | Not agreed | 250 |
| Total deposits | | | 250 |
| Total loans and deposits received | | | 211,592 |

Guarantees provided and received

| | December 31, 2007 BGN'000 | Up to 1 year BGN'000 | From 1 to 2 years BGN'000 | From 3 to 5 years BGN'000 | Over 5 years BGN'000 |
|---|---------------------------------|----------------------------|---------------------------------|---------------------------------|----------------------------|
| Availed promissory notes issued in favour of financing institutions under bank loan and finance lease agreements of related parties | 188,298 | 100,975 | 73,500 | 13,823 | - |
| Issued corporate guarantee in favour of a supplier under commercial contract of a related party | 2,254 | 2,254 | - | - | - |
| Guarantees granted in favour of financing institutions under bank loan agreements of related parties | 15,842 | 15,842 | - | - | - |
| Total guarantees provided | 206,394 | 119,071 | 73,500 | 13,823 | - |
| Corporate guarantee received from a related party in favour of the trustee bank under a debenture loan | 21,281 | 21,281 | - | - | - |
| Total guarantees received | 21,281 | 21,281 | - | - | - |

- Subsidiary companies**

Deposits granted

| Type of borrower | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|-------------------------------|-------------------------|------------|--|
| Parent company | 3-month SOFIBOR plus 1% | Not agreed | 250 |
| Total deposits granted | | | 250 |

Loans received

| Type of lender | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|---|--|------------|--|
| Commercial bank | 1-month SOFIBOR/LIBOR/ EURIBOR plus 1.75% | 31.01.2008 | 46,437 |
| Total bank loans | | | 46,437 |
| Parent company | 8.375% | 21.10.2011 | 119,210 |
| Parent company | 8.5% | 01.08.2008 | 2,262 |
| Total trade loans from related parties | | | 121,472 |
| Total loans received | | | 167,909 |

Guarantees provided and received

| | December 31, 2007 BGN'000 | Up to 1 year BGN'000 | From 1 to 2 years BGN'000 | From 3 to 5 years BGN'000 | Over 5 years BGN'000 |
|--|---------------------------------|----------------------------|---------------------------------|---------------------------------|----------------------------|
| Availed promissory notes issued in favour of financing institutions under finance lease agreements of related parties | 8,277 | - | - | 8,277 | - |
| Guarantees granted in favour of financing institutions under bank loan agreements of related parties | 5,867 | 5,867 | - | - | - |
| Total guarantees provided | 14,144 | 5,867 | - | 8,277 | - |
| Bank guarantees issued in favour of customs authorities as collateral to excise and customs duties and corporate clients under public tender contracts | 8,769 | 8,769 | - | - | - |
| Promissory notes availed by related parties issued in favour of financing institutions under finance lease agreements | 17,154 | - | - | 17,154 | - |
| Total guarantees received | 25,923 | 8,769 | - | 17,154 | - |

- **Ultimate controlling party**

Loans granted

| Type of borrower | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|---|---|------------|--|
| Individuals | 3-month SOFIBOR plus 1% | 31.12.2008 | 596 |
| Individuals | 3-month SOFIBOR plus 1% | 31.03.2008 | 500 |
| Total loans to individuals | | | 1,096 |
| Companies under common control | 3-month SOFIBOR plus 1% | 31.12.2008 | 21,248 |
| Companies under common control | BIR plus 4.8% | 31.12.2010 | 9,001 |
| Companies under common control | 3-month EURIBOR plus 2.75% | 21.11.2010 | 5,150 |
| Companies under common control | 3-month SOFIBOR plus 1% | 31.12.2009 | 3,958 |
| Companies under common control | 3-month SOFIBOR plus 1% | 31.12.2008 | 7,789 |
| Companies under common control | 3-month SOFIBOR plus 1% | 31.12.2008 | 1,879 |
| Companies under common control | 3-month SOFIBOR plus 5%, BIR plus 6% | 31.12.2008 | 298 |
| Associate | 3-month SOFIBOR plus 1% | 31.12.2008 | 106 |
| Total trade loans to related parties | | | 49,429 |

| Type of borrower | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|---|-------------------------|------------|--|
| Trade company | 3-month SOFIBOR plus 4% | 31.12.2008 | 7,862 |
| Trade company | 3-month SOFIBOR plus 4% | 31.12.2008 | 1,298 |
| Total trade loans to non-related parties | | | 9,160 |
| Total loans granted | | | 59,685 |

Loans and deposits received

| Type of lender/depositor | Annual interest rate | Maturity | Principal December 31, 2007 BGN'000 |
|--|---|------------|--|
| Company under common control | 3-month SOFIBOR plus 2% | 21.10.2011 | 44,698 |
| Company under common control | 3-month SOFIBOR plus 1% | Not agreed | 92,793 |
| Company under common control | 1 мес. Euribor плюс 2.85% | 18.10.2019 | 19,398 |
| Company under common control | 3-month SOFIBOR plus 1% | Not agreed | 646 |
| Associate | 3-month SOFIBOR plus 1% | Not agreed | 50 |
| Total trade loans and deposits from related parties | | | 157,585 |
| Commercial bank | BIR plus 3% | 31.01.2009 | 2,494 |
| Commercial bank | 8% | 26.11.2008 | 3,000 |
| Commercial bank | 1-month EURIBOR plus 2.5% | 31.03.2008 | 13,886 |
| Commercial bank | 1-month EURIBOR plus 2.25% | 17.04.2008 | 41,072 |
| Total bank loans | | | 60,452 |
| Individuals | 3-month SOFIBOR plus 1% | Not agreed | 3,680 |
| Total loans and deposits from individuals | | | 3,680 |
| Trade company | 3-month LIBOR plus 10%, 12-month LIBOR plus 3.5% | 01.12.2015 | 33,227 |
| Trade company | 1-month SOFIBOR plus 1.5% | 04.01.2008 | 18,500 |
| Trade company | 3-month SOFIBOR plus 1% | Not agreed | 2 |
| Total trade loans from non-related parties | | | 51,729 |
| Total loans and deposits received | | | 273,446 |

Guarantees provided and received

| | December 31, 2007 BGN'000 | Up to 1 year BGN'000 | From 1 to 2 years BGN'000 | From 3 to 5 years BGN'000 | Over 5 years BGN'000 |
|---|---------------------------------|----------------------------|---------------------------------|---------------------------------|----------------------------|
| Availed promissory notes issued in favour of financing institutions under bank loan and finance lease agreements of related parties | 278,964 | 101,329 | 86,785 | 60,959 | 29,891 |
| Issued corporate guarantees in favour of: | 56,101 | 21,281 | - | - | 34,820 |
| <i>Trustee bank under a debenture loan emission of a related party</i> | <i>21,281</i> | <i>21,281</i> | - | - | - |
| <i>Supplier of a related party under a finance lease agreement</i> | <i>34,820</i> | - | - | - | <i>34,820</i> |
| Other guarantees granted to a trustee bank under a debenture loan emission of a related party | 9,680 | - | 9,680 | - | - |
| Total guarantees provided | 344,745 | 122,610 | 96,465 | 60,959 | 64,711 |
| Guarantees provided by related parties in favour of financing institutions under bank loan agreements | 21,710 | 21,710 | - | - | - |
| Total guarantees received | 21,710 | 21,710 | - | - | - |

The financial risks which the Group is exposed to, are discussed in detail in note 41 to the consolidated financial statements as of December 31, 2007.

4. Share capital

The registered and fully paid-in share capital of Petrol AD as at 31 December 2007 amounts to BGN 109.25 millions (EUR 55.73 millions) and is distributed into 109,249,612 ordinary registered shares with voting rights, with a par value of BGN 1 each. The shares, issued by the Company are transferable with no limitations or conditions, by its owner's free will, in accordance with the Bulgarian legislation, and according to the rules of Central Depository AD concerning the acquiring and ordering with registered shares, as well as in compliance with the regulations of the market they are traded on. Detailed information about the rules and procedures for trading Petrol's shares is available in the published prospectuses of the Company.

The following table sets out information about the changes in the structure of share capital:

| In percentage | 2007 | 2006 | 2005 |
|--|--------------|---------------|---------------|
| Petrol Holding AD | 69.10 | 71.75 | 76.03 |
| Naftex Refining and Petrochemical Engineering Services (former Naftex Oil Shipping Corporation Limited, UAE) | 18.84 | 18.84 | 18.84 |
| Naftex Petrol EOOD | 5.15 | - | - |
| Ministry of Economics | 0.86 | 0.94 | 1.03 |
| Other minor shareholders | 6.05 | 8.47 | 4.1 |
| Total | 100.0 | 100.00 | 100.00 |

In 2007 Naftex Petrol EOOD, a subsidiary, made block deals on Bulgarian stock exchange and hence the Group acquired own shares. As a result the share capital of the Group decreased to BGN 103.62 million (EUR 52.98 million).

Shares owned by other minor shareholders are held by investors, which have acquired them through trading at the regulated stock market and there is none of them who owns more than 5% of Company's shares. Petrol AD does not have shareholders with special controlling rights.

Petrol AD did not grant any options over the shares in favour of the members of the MB and the SB. There are no agreements about participation of employees in share the capital of Petrol AD, including through issuing stocks, options or other financial instruments.

Persons or entities directly or indirectly controlling Petrol AD

Under paragraph 1, point 13 of the Public Offering of Securities Act, one person or entity exercises directly or indirectly control over the company, when that person or entity holds over 50% of the votes of the GMS or may appoint directly or indirectly more than half of the members of the company's bodies, or may otherwise exercise a decisive influence on decision-making in relation to the business of the legal entity. Petrol Holding AD, with address of registered office 22A Bratya Miladinovi Street Varna, registered under company file No. 3320/1995 in the Varna District Court, holds directly voting shares equal to 69.10% of the votes of the GMS of the Company.

Stock market information

In the beginning of 2007 the shares of Petrol AD were traded on the “C” segment of the Official market of the Bulgarian Stock Exchange – Sofia. On 12 January 2007, as a result of changes in Rules and Regulations of the Bulgarian Stock Exchange – Sofia the “C” segment of the Official market was closed down. Upon request of the management of Petrol AD representatives of the stock exchange made an analysis of Company’s shares, which ascertained the fact that the shares of the Company are in compliance with the requirements for listing in the upper segment in the official market. As a result, on 15 January 2007 the shares of Petrol AD were listed and are now traded on the “B” segment of the Official market of the Bulgarian stock exchange - Sofia. In 2007 the shares of Petrol AD are included in the three Bulgarian stock exchange indices SOFIX, BG-40 and TR30.

The following table sets out summarised market information about the trading of Company’s shares on the Bulgarian Stock Exchange – Sofia:

| | | 2007 | 2006 | 2005 |
|---|---------|--------|--------|--------|
| Share capital as at 31 December | BGN mln | 109.3 | 109.3 | 109.3 |
| | EUR mln | 55.73 | 55.73 | 55.73 |
| Share price as at 31 December | BGN | 5.28 | 4.33 | 3.78 |
| | EUR | 2.70 | 2.21 | 1.93 |
| Market capitalisation as at 31 December | BGN mln | 577 | 473 | 413 |
| | EUR mln | 295 | 242 | 211 |
| Average daily volume of traded shares | number | 31,687 | 29,476 | 128,98 |
| Highest price throughout the year | BGN | 6.40 | 4.43 | 4.44 |
| | EUR | 3.27 | 2.27 | 2.27 |
| Lowest price throughout the year | BGN | 4.25 | 3.20 | 3.00 |
| | EUR | 2.17 | 1.64 | 1.53 |

The price of shares of Petrol AD rose from BGN 4.33 (2.21 EUR) in the beginning of 2007 to BGN 5.28 (EUR 2.70) as at the end of the year, which accounts for an increase in the market capitalisation of the company by BGN 104 million (EUR 53 million). The price of parent company’s share was not influenced by the negative trend of stock exchange indices at the end of the year.

5. Human resources

Management of Human Resources of the Group

The Management believes that the employees of the Group play key role in the development of the business and the achievement of common corporate goals. Consequently, special attention is paid to elaboration and development of general strategy and policies regarding human resources management. The policies in this field are oriented towards achieving of responsibility and commitment of the personnel during its performance of assigned tasks and goals. Simultaneously the senior executive staff makes efforts to support the mid-level management and the employees in order to fulfil the Group's management priorities.

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

- Keeping the employees with a high potential and assisting their professional growth by planning their careers and introducing bonus package systems;
- Selection of new employees with significant potential and result-oriented personality;
- Broadening the scope of the traineeship programmes;
- Improvement of communications between the separate organizational bodies;
- Development and introducing of new systems for career management of the key employees;
- Development of programme for introducing training for newly employed personnel.

The Group applies adequate criteria for selection of personnel and has a professional and motivated team, which is capable for pursuing the defined strategic and operational goals. An organization network has been created for fair evaluation of the personnel's individual and collective contribution, as well as for evaluation of its content grade. The Group invests in its employees by offering them adequate programmes for training and development of the necessary professional and management skills. The Group's policy is oriented towards providing of safe healthy work conditions, adequate remuneration and motivation system, and opportunities for professional growth.

The number of average payroll staff has decreased significantly during the last two years which is due to the fact that Parent Company sold its shares in a number of subsidiaries and associates as was mentioned above. During 2007 the number of personnel has dropped off by 13.9%. By the end of 2007 the average payroll staff of the Group was 3,126 employees, most of whom worked for the parent company (2,563 employees). Among the other companies in the Group the one with the second largest staff was Naftex Petrol EOOD (312 employees).

Information about the Group's senior executive staff

Complying with the requirements of Art. 187d and Art. 247 from the Commerce Act, Petrol AD presents the following information about its management bodies members:

- The total amounts of remuneration sums paid to the members of the Management Board and the Supervisory Board in 2007 are BGN 0.7 million (EUR 0.4 million) and BGN 0.3 million (EUR 0.2 million), respectively;
- Kaloyan Karshev owns 3,480 shares of Petrol AD. None of other members of management bodies own shares of Petrol AD;
- The Management Board and Supervisory Board members unlimited liability partnership in other companies, their ownership of more than 25 % of the capital of other companies, as well as their participation in the management of other companies and cooperatives as procurators, managers or board members are, as follows:
 - **Mitko Sabev** – Chairman of Supervisory Board of Petrol AD, Chairman of Board of Directors (BD) of Petrol Holding AD, Chairman of BD of Trans Operator AD, Chairman of BD of

Transhold Bulgaria Holding AD, Chairman of BG of Transcard Payment Services EAD Chairman of Supervisory Board of Chernomorets Burgas PSFC AD, member of BD of Sportelit AD, member of BD of Transcard Financial Services EAD, member of Control Council of Bulgarian-Rumanian Chamber of Commerce and Industry, Manager of Ros Oil EOOD, Manager of Civil Partnership (Under the Obligations and Contracts Act (OCA) Balkan Petrol Consortium. Mitko Sabev owns 47.5% of the capital of Petrol Holding AD;

- **Stoian Krastev** – member of Supervisory Board of Petrol AD. Deputy Chairman of BD of Petrol Holding AD, Chairman of BD of Jurex Consult AD, Chairman of BD of Eurocapital Bulgaria EAD, Chairman of “Union of Private Petrol Companies” Association, member of Management Board (MB) of “Family” National Association, member of MB of Almina AD. He owns directly 50% of the shares of Pas Consult OOD, indirectly (through Pas Consult OOD) 50% of the shares of Consult –98 EOOD, 50% of the shares of Consult 2002 EOOD, and 50% of the shares of Pas Consult Prim EOOD;
 - **Ivan Neykov** – member of Supervisory Board of Petrol AD. Chairman of MB of “Balkan Labor and Social Policy Institute” Association, member of MB of “Institute for Regional Economic Research” Association. He does not own more than 25% of other company capital;
 - **Denis Jersov** – Chairman of MB of Petrol AD. Mr. Ershov is neither a member of any management or supervisory bodies of other companies nor a procurator of other legal entities. He owns 47.5% of the capital of Petrol Holding AD;
 - **Svetoslav Yordanov** – member of MB of Petrol AD, member of the MB of “St. Nikola” Foundation, member of MB of “St. Panteleymon” Foundation, member of MB of Bulgarian-Romanian Chamber of Commerce and Industry. He owns directly 50% of the capital of Albatros Tours OOD and 50% of the capital of “St. Panteleymon” Specialized Surgery Clinic;
 - **Tzvetan Dimitrov** – member of MB of Petrol AD, Manager of Adakta OOD and ET Star-99-Tzvetan Ivanov. He owns 100 % of the capital; of ET Star-99-Tzvetan Ivanov and 50% of the capital of Adakta OOD;
 - **Kaloian Karshev** – member of MB of Petrol AD. He is not a member of management or supervisory bodies of any other company and he is not a procurator of other legal entity. Mr. Karshev does not own more than 25% of other company capital;
 - **Ivan Kostadinov** - member of MB of Petrol AD. He is not a member of management or supervisory bodies of any other company and he is not a procurator of other legal entity. Mr. Kostadinov does not own more than 25% of other company capital.
- In 2007 no deals have been contracted with any members of the boards that are out of the scope of the ordinary activities of the parent company or materially deviate from normal market conditions.

6. Events after balance sheet date

The subsequent events after the balance sheet date and prior to the date of issuance of the annual report are disclosed in note 45 to the consolidated financial statements as of December 31, 2007.

Outlook

The management of the Group expects during the next few years the competition between the main players in fuel trade to become more intensive and some of the minor independent traders to drop gradually out of business. Legislative changes with regard to excise duties on fuels and increase in crude oil price on the international markets will continue to influence fuel end prices in the following years, which will lead to a continuous reduction of gross trade margins. The management of the Group assumes that based on the expected gradual GDP growth and the low elasticity of demand the fuel consumption in the country will increase during the following years.

Group's plans for future development are closely connected with the expectations for changes in market conditions. After the restructuring of the Group in 2007, the management is able to focus on the expansion and growth of fuel sales.

In the next few years results of the Group will depend to a great extent on the amount of investments and successful completion of new projects. In the following years Group's investment programme will be focused mainly on the transformation of the older retail stations to modern places for complex services. The management plans to continue the programme for urgent repairs of old retail stations. In 2008 under this programme 36 sites will be refurbished at a cost of BGN 21.6 million (EUR 11 million), while in 2009 BGN 7.2 million (EUR 3.7 million) are budgeted for renovation of 12 fuel stations.

In 2009 the Group plans to invest BGN 13.3 million (EUR 6.8 million) in the enlarging of the existing retail stations and building of new ones. The latter will be built on new locations in the major cities of the country and will be direct competitors to the sites of the other big chains. In view of the trend of increase in the consumption of the lower priced CNG, the Group intends to install 6 new CNG modules at a total cost of BGN 3 million (EUR 1.5 million) until the end of 2009.

The Group intends to expand its retail market share by expansion of its network of fuel stations. In order to achieve this objective in 2008 the Group will further develop its dealership programme and will offer about 50 fuel stations for operation by independent dealers. Furthermore, the Company plans to attract 30 more petrol stations beneath the flag of Petrol under the franchising programme and intends to invest BGN 0.8 million (EUR 0.4 million) for this purpose.

Other investment goal of the Management is the completion of process of implementing an information system for active sales management within the implemented enterprise resource planning system SAP for Retail. The budgeted investment for this project is at the amount of BGN 0.7 million (EUR 0.36 million) for 2008.

In 2008 the Group plans to invest BGN 21.6 million (EUR 11 million) in order to fulfil its investment programme for the retail business line. About 10% of the total investments are budgeted for construction of vapour recovery systems on the retail stations with regard to the completion of the corporate policy on quality management and environment. In addition, the Group will invest BGN 10.8 million (EUR 5.5 million) more in the wholesale business line during the period 2008 - 2010. This includes investments amounting to BGN 8.5 million (EUR 4.3 million) that will be made in order to meet the environmental requirements. The investments in storage facilities are aimed to fulfilling of the legislation requirements, reduction of technological arising on usage of equipment and development and maintenance of the storage services rendered to third parties.

In addition to its ambitious investment programme, the management of the Group will direct its efforts to the fulfilment of active marketing strategy. One of its main lines will be launching and development of Petrol branded goods and services. With regard to the clients, the guidelines for future development are attraction of new client target groups and creation of group of loyal clients. Group's strategy for 2008 is focusing on the end customer. This includes wide-range marketing activities – games, promotions and other, supported by media events.

Corporate governance

In its activity the Management of the Group follows the approved Programme for applying of international standards for good corporate governance (the Programme). The management believes that such standards are essential to business integrity and performance.

The Programme is developed in accordance with the Bulgarian business law, the principles for corporate governance of the Organization for Economic Co-operation and Development, the International standards for good corporate governance adopted by the Financial Supervision Commission, The Code for Corporative Governance adopted by the Board of Directors of the Bulgarian Stock Exchange – Sofia, the By-laws of Petrol AD and the rules and procedures for functioning of the management bodies of the parent company.

The Programme is approved by a decision of the Management Board (MB) on 10 April 2003¹⁸ and its implementation is monitored and controlled by the Supervisory Board (SB) of Petrol AD. The Programme sets out the main principles and policies that the management bodies should comply with in order to achieve the goals set in the Programme, namely:

- Protection of the shareholders' rights and guaranteeing equity amongst them (including minor and foreign shareholders);
- Timely and accurate disclosure of information about all issues relevant to Petrol AD in compliance with the Public Offering of Securities Act, Law on Measures against Market Abuse with Financial Instruments and the other acts;
- Providing strategic management of the parent company, efficient control of the work of the MB and reporting of the MB and the SB to the General Meeting of the Shareholders (GMS);
- Creating interactive connection between the Management of Petrol AD and its shareholders and potential investors.

The main principles of the Programme are set below.

Shareholders' rights

The Programme sets clearly the rights of the shareholders of Petrol AD and the main goal of the managers' team is to ensure their observation. The shareholders have the right to:

- Participate and vote in the GMS;
- Be equally treated in the GMS;
- Request convocation of regular or extraordinary GMS;
- Access the materials in writing, relevant to the agenda of the GMS;
- Access to the records of the previous sessions of the GMS;
- Make proposals for election of members of the SB and to vote for their electing;
- Take part in the distribution of the company's profit commensurably to their participation of the share capital;
- Receive regularly and timely information about corporate events related to the activities and condition of Petrol AD;
- Participate in the increase of the capital of Petrol AD and in tender offers.

¹⁸ By a decision of the MB dated 28 February 2007 the Programme had been revised and amended

Board Structure

Petrol AD has two-tier board structure, which includes Management Board (MB) and Supervisory Board (SB).

Management Board

The parent company is managed and represented by a MB, whose 5 members are elected by the SB for a 5-year period.

The MB has the authority to prepare and the annual report and financial statements of the company submit them for approval by the GMS; to adopt projects and programmes for the activity of the company; to make proposals for increase or decrease of the company's capital to the GMS; to elect and dismiss the executive directors; to approve the organisational and management structure of the company and other internal regulations; to open and close down branches and to make decisions to acquire or terminate participations in the capital of other domestic or foreign companies etc.

For all MB resolutions is needed qualified majority of $\frac{3}{4}$ of all members, unless consensus is needed. MB holds its sessions at least once a month and reports for its activity to the SB at least on a quarterly basis.

The MB authorises the rules for its activities, which strictly determine all the rights, obligations and functions of the members of the MB.

Supervisory Board

The SB administrates and controls the activities of the MB in view of the conformity of its actions with the legislation, the By-laws of the Petrol AD and the decisions of the GMS. The SB is a collective body, elected by and directly reporting to the GMS.

SB's is mandate is 5 years; at least $\frac{1}{3}$ of its members should be independent persons under the definition of the Public Offering of Securities Act.

The SB controls generally and continuously the activities of the company, revises the annual reports and financial statements of the company, submits written annual reports for the final results from the audits and analyses of the business to the GMS, elects and dismisses the members of the MB, approves the financial plans and investment programmes of the Company, etc.

The SB holds its sessions at least on a quarterly basis and reports for its activity to the GMS. The SB takes its decisions in accordance with the authorities given to it by the GMS, the By-laws and the current legislation.

GMS determines the remuneration of the members of the SB and the MB, taking into consideration the responsibility, the engagement and the involvement of each board member with the management of the company.

Disclosure of information

Being a public company Petrol AD submits to the Financial Supervision Commission and the Bulgarian Stock Exchange – Sofia periodical reports and notifications about insider information under the Law on Measures against Market Abuse with Financial Instruments. The company submits individual and consolidated quarterly financial statements, annual report and individual and consolidated annual financial statements.

According to the requirements of the published prospectus for the Euro notes issue made at the end of October 2006, the company prepares and submits to the Trustee (The Bank of New York) and to the Noteholders consolidated quarterly and annual financial statements and annual report.

The management bodies of the parent company and the Investor Relations Director should provide easy and timely access of the shareholders and investors to the information, to which they are legally entitled being shareholders and/or investors in order to take informed and adequate investment decisions.

Control over the fulfilment of the Programme

The control over the Programme is exercised by the MB. The effectiveness and efficiency of the Programme is assessed annually by the MB. The results of this assessment and further measures proposed should be included be noticed in the annual report provided to Financial Supervision Commission and to the Bulgarian Stock Exchange – Sofia.

Environmental commitments

Following its privatisation in 1999, Petrol AD started the implementation of an investment programme aimed to bring the Group's facilities in line with the requirements of the best environmental practices in European Union. 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 acts 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 and various regulations on their implementation. As part of Bulgaria's preparation for accession to the European Union, each of these laws has been brought into line with European Union 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 the meeting of the Bulgarian and European Union requirements for the control of volatile organic compounds (known as VOCs). VOCs are compounds containing carbon that evaporate into the air, such as vapour arising from certain petroleum products. European Union 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 legal acts set up very strict requirements to fuel stations, fuel storage terminals, and fuel tank trucks. Pursuant to these standards the tanks of fuel stations are made with double walls willed with inert liquid. The Group installed level measuring systems reacting 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. Thus all dangers of fuel leaks and pollution with carbon oxides are minimized.

In order for the group to be in line with the environmental criteria, the loading and storage terminals are currently being reconstructed. Floating roofs limiting the vapours to a minimum are installed, new mounting platforms for down filling of fuel trucks and vapour recovery system are 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 27 new fuel tank trucks from IVECO Spa and Mercedes for the total cost of BGN 7.4 million (EUR 3.7 million), 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.

The Group will continue to invest in environmental expenditures in its retail network and on its storage facilities within the next five years in order to meet European Union requirements for the control of VOC air emissions. More detailed information for the amount of expected additional investments with regards to the fulfilment of Group's environmental commitments can be found in note 40 to the consolidated financial statements.

ISO Certification

In December 2004, the Management Board of Petrol AD decided to obtain certifications for its quality management standards under ISO 9001:2000 and its environmental management system under ISO 14001:1996. This intention confirms the commitment of the Management to implement the best European practices in process management. This process includes the preparation, documentation and implementation of written rules and procedures and an audit of the procedures by an independent third party. In October 2007 The Company obtained an ISO 9001:2000 certification. The Management continues the completion of the commitments undertaken for meeting the requirements of the ISO 14001:1996 standard.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

**To the shareholders of
Petrol AD**

Report on the consolidated financial statements

1. We have audited the accompanying consolidated financial statements of Petrol AD (the "Parent company") and its subsidiaries and associated companies (together referred to as "the Group"), which comprise the consolidated balance sheet as of December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed in paragraphs 6, 7 and 8 below, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualification

6. As of December 31, 2006 the Group has presented in these consolidated financial statements inventories, amounting to BGN 137,968 thousand, which include fuels with a carrying amount of BGN 18,313 thousand, purchased under the fuel supply agreement signed with a supplier (see Note 42.1 and 45.1). We have not received confirmation from this supplier regarding the inventory quantities as of December 31, 2006. In accordance with the out-of-court agreement signed with the supplier in March 2008 and the annexes thereto, the fuel and merchandise, as of December 31, 2007 is determined at the amount of BGN 15,143 thousand. We were unable to satisfy ourselves as to whether inventories of BGN 18,313 thousand were fairly presented and valued as of December 31, 2006 and respectively, we were not able to confirm whether cost of sales for the year ended December 31, 2007 was fairly presented and valued.
7. Trade and other receivables amounting to BGN 121,054 thousand as of December 31, 2007 and BGN 118,066 thousand as of December 31, 2006 include various receivables overdue for over one year amounting to approximately BGN 5,010 thousand and BGN 1,500 thousand respectively, for which there are indications for impairment. As of December 31, 2007 and December 31, 2006 no impairment has been provided for these receivables. We have not been provided with sufficient evidence of the recoverability of these receivables to enable us to determine whether trade and other receivables amounting to BGN 5,010 thousand and BGN 1,500 thousand are fairly presented and valued as of December 31, 2007 and December 31, 2006.
8. As disclosed in Note 34 to the accompanying consolidated financial statements, the Group has performed block transactions on the Bulgarian Stock Exchange (BSE) through one of its subsidiaries, and acquired its own shares. As a result of the transaction, it realised a net loss of BGN 19,060 thousand recorded in equity against retained earnings. As the volume of shares traded on BSE, excluding transactions between related parties, is relatively insignificant in relation to the total volume of purchased shares, the prices used may not be representative for the purpose of the valuation of the reported loss in 2007. As a result, we were unable to satisfy ourselves through other independent sources whether the loss from redemption of shares of BGN 19,060 thousand and the related effects and disclosures thereon were fairly presented in the consolidated financial statements.

Qualified Opinion

9. In our opinion, except for the effects, if any, on the consolidated financial statements of the matters discussed in paragraphs 6, 7 and 8 above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and of its financial performance and its cash flows for the year then ended, in accordance with IFRS, as adopted by the European Union Commission.

Matter of emphasis

10. Without further qualifying our audit opinion, we draw attention to Note 42 to the accompanying consolidated financial statements reflecting restatement of the comparative information as a result of errors related to prior reporting periods.

Other Reports on regulatory requirements – Annual consolidated report on the activities of the Group according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4, we have read the Annual consolidated report on the activities of the Group, prepared by the Group's management. The Annual consolidated report on the activities of the Group is not a part of the consolidated financial statements of the Group or the separate financial statements of the Parent company. The historical financial information, presented in the Annual consolidated report on the activities of the Group, prepared by the management, is consistent, in all material respects, with the financial information, disclosed in the annual consolidated financial statements of the Group as of December 31, 2007, prepared in accordance with IFRS, as adopted by the European Union Commission. Group's management is responsible for the preparation of the Annual consolidated report on the activities of the Group, dated May 27, 2008. In accordance with the Accountancy Act, article 33, paragraph 5, the Annual separate report on the activities and the Annual consolidated report on the activities may be prepared and presented together, in which case specific information should be included for the entities that comprise the Group taken as a whole. Management has elected to prepare only Annual consolidated report on the activities.

Deloitte Audit OOD

Sylvia Peneva
Managing Director
Registered Certified Public Accountant

May 30, 2008
Sofia

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007**

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2007

| | <i>Notes №</i> | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|---|--------------------|---|--|
| Revenue | 6 | 1,383,786 | 1,348,420 |
| Other income | 7 | 7,538 | 8,032 |
| Cost of goods sold | 8 | (1,244,696) | (1,227,200) |
| Materials | 9 | (11,336) | (12,476) |
| Hired services | 10 | (40,725) | (37,488) |
| Employee benefits expenses | 11 | (28,286) | (27,125) |
| Depreciation and amortization expenses | 12 | (17,601) | (19,033) |
| Impairment of assets | 13 | (6,850) | (631) |
| Other expenses | 14 | (19,476) | (12,789) |
| Finance income | 15 | 9,109 | 8,034 |
| Finance costs | 15 | (67,754) | (12,536) |
| Share of profit (loss) of associates | 20 | <u>1,149</u> | <u>(231)</u> |
| Profit (loss) before taxation | | (35,142) | 14,977 |
| Income tax benefit (expense) | 16 | <u>2,248</u> | <u>(4,952)</u> |
| Net profit (loss) for the period | | <u>(32,894)</u> | <u>10,025</u> |
| <i>Owned by:</i> | | | |
| <i>Owners of the Parent company</i> | | (32,882) | 10,025 |
| <i>Minority interest</i> | | (12) | - |
| Earnings/ (loss) per share (BGN) | 36 | (0.30) | 0.09 |

These consolidated financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
Executive Director

Desislava Todorova
Chief Accountant

May 27, 2008

Sylvia Peneva
Registered certified public accountant
May 30, 2008

(The accompanying notes from page 55 to page 110 are an integral part of these consolidated financial statements)

CONSOLIDATED BALANCE SHEET
As of December 31, 2007

| | <i>Note №</i> | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|--------------------------------------|-------------------|---|--|
| Non-current assets | | | |
| Property, plant and equipment | 17 | 209,163 | 201,614 |
| Intangible assets | 18 | 1,215 | 1,400 |
| Investment property | 19 | - | 18,252 |
| Investments in associates | 20 | 14,925 | 1,816 |
| Goodwill, net | 21 | 18,297 | 20,309 |
| Deferred tax assets | 16 | 1,432 | - |
| Interest-bearing loans granted | 22 | <u>36,810</u> | <u>44,698</u> |
| Total non-current assets | | <u>281,842</u> | <u>288,089</u> |
| Current assets | | | |
| Inventories | 23 | 139,428 | 137,968 |
| Trade and other receivables, net | 24 | 121,054 | 118,066 |
| Interest-bearing loans granted | 22 | 40,692 | 40,005 |
| Derivative financial assets | 25 | 808 | - |
| Cash and cash equivalents | 26 | 67,537 | 62,987 |
| Current income tax receivables | 27 | 7,196 | 5,406 |
| Non-current assets, held for sale | 28 | <u>-</u> | <u>1,387</u> |
| Total current assets | | <u>376,715</u> | <u>365,819</u> |
| Total assets | | <u>658,557</u> | <u>653,908</u> |
| Current liabilities | | | |
| Trade and other payables, net | 29 | 275,225 | 211,229 |
| Interest-bearing loans | 30 | 77,426 | 56,953 |
| Obligations under finance lease | 31 | 2,085 | 1,955 |
| Derivative financial liabilities | 32 | 3,957 | 255 |
| Retirement benefits obligations | 33 | <u>42</u> | <u>32</u> |
| Total current liabilities | | <u>358,735</u> | <u>270,424</u> |
| Non-current liabilities | | | |
| Interest-bearing loans | 30 | 192,302 | 207,217 |
| Obligations under finance lease | 31 | 3,370 | 4,955 |
| Deferred tax liabilities | 16 | - | 1,182 |
| Retirement benefits obligations | 33 | <u>416</u> | <u>438</u> |
| Total non-current liabilities | | <u>196,088</u> | <u>213,792</u> |
| Net assets | | <u>103,734</u> | <u>169,692</u> |

CONSOLIDATED BALANCE SHEET (continued)
As of December 31, 2007

| | <i>Note №</i> | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|--|-------------------|---|--|
| Equity, owned by the owners of the Parent company | | | |
| Share capital | 34 | 103,623 | 109,250 |
| Retained earnings (loss) | | (46,928) | 20,960 |
| Revaluation reserve | 35 | 28,137 | 28,817 |
| Other reserves | | <u>18,864</u> | <u>10,665</u> |
| Total equity, owned by the owners of the Parent company | | 103,696 | 169,692 |
| Minority interest | | 38 | - |
| Total equity and reserves | | <u>103,734</u> | <u>169,692</u> |

These consolidated financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
 Executive Director

Desislava Todorova
 Chief Accountant

May 27, 2008

Sylvia Peneva
 Registered certified public accountant
 May 30, 2008

(The accompanying notes from page 55 to page 110 are an integral part of these consolidated financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the year ended December 31, 2007

| | Equity attributable to the owners of the Parent | | | | | Minority interests | Total equity |
|---|---|---------------------|----------------|-------------------|----------------|--------------------|----------------|
| | Share capital | Revaluation reserve | Other reserves | Retained earnings | Total | | |
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | | |
| Balance at January 1, 2006 | <u>109,250</u> | <u>28,865</u> | <u>10,489</u> | <u>12,901</u> | <u>161,505</u> | <u>-</u> | <u>161,505</u> |
| Prior period errors | - | - | - | (2,711) | (2,711) | - | (2,711) |
| Balance at January 1, 2006, restated | <u>109,250</u> | <u>28,865</u> | <u>10,489</u> | <u>10,190</u> | <u>158,794</u> | <u>-</u> | <u>158,794</u> |
| Revaluation reserve of disposed non-current assets | - | (1,648) | - | 1,648 | - | - | - |
| Change in the tax rate of the deferred tax liability recognized in equity | - | 1,600 | - | - | 1,600 | - | 1,600 |
| <i>Net income, recognized directly in equity</i> | <u>-</u> | <u>(48)</u> | <u>-</u> | <u>1,648</u> | <u>1,600</u> | <u>-</u> | <u>1,600</u> |
| Profit for the period | - | - | - | 10,025 | 10,025 | - | 10,025 |
| <i>Total income/expense recognized for the period</i> | - | (48) | - | 11,673 | 11,625 | - | 11,625 |
| Allocation of profit to the reserves | - | - | 176 | (176) | - | - | - |
| Dividends | - | - | - | (727) | (727) | - | (727) |
| Balance at December 31, 2006 | <u>109,250</u> | <u>28,817</u> | <u>10,665</u> | <u>20,960</u> | <u>169,692</u> | <u>-</u> | <u>169,692</u> |
| Revaluation reserve of disposed non-current assets | - | (680) | - | 680 | - | - | - |
| <i>Net income, recognized directly in equity</i> | <u>-</u> | <u>(680)</u> | <u>-</u> | <u>680</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Loss for the period | - | - | - | (32,882) | (32,882) | (12) | (32,894) |
| <i>Total income/expense recognized for the period</i> | - | (680) | - | (32,202) | (32,882) | (12) | (32,894) |
| Change in minority interest | - | - | - | - | - | 50 | 50 |
| Allocation of profit to the reserves | - | - | 8,199 | (8,199) | - | - | - |
| Dividends | - | - | - | (8,427) | (8,427) | - | (8,427) |
| Treasury shares | (5,627) | - | - | (19,060) | (24,687) | - | (24,687) |
| Balance at December 31, 2007 | <u>103,623</u> | <u>28,137</u> | <u>18,864</u> | <u>(46,928)</u> | <u>103,696</u> | <u>38</u> | <u>103,734</u> |

These consolidated financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
Executive Director

May 27, 2008

Desislava Todorova
Chief Accountant

Sylvia Peneva
Registered certified public accountant
May 30, 2008

(The accompanying notes from page 55 to page 110 are an integral part of these consolidated financial statements)

CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2007

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|---|---|--|
| Cash flows from operating activities | | |
| Net profit (loss) before taxation | (35,142) | 14,977 |
| Adjustments for: | | |
| Depreciation (amortization) of non-current assets | 17,601 | 19,033 |
| Interest expenses, bank fees and commissions, net | 20,295 | 7,755 |
| Shortages and normal loss, net of excess assets | 5,170 | 4,484 |
| Provisions for unused annual paid leave and retirement benefits | 1,620 | 1,733 |
| Impairment of assets | 6,850 | 631 |
| Write-off of liabilities | (4,800) | - |
| Loss on liquidation of assets | 117 | 373 |
| Net effect from applying the equity method | (1,149) | 231 |
| Loss on acquisition of subsidiaries and associates | - | 32 |
| Loss (gain) on sale of derivatives | 40,089 | (1,661) |
| Loss (gain) on sale of non-current assets | 4,665 | (4,709) |
| Gain on sale of financial assets held for trading | - | (73) |
| Loss on sale of associates | 140 | - |
| Gain on sale of subsidiaries | (2,286) | - |
| Unrealized foreign exchange differences | (94) | - |
| Cash flows provided by operating activities | 53,076 | 42,806 |
| Interest and bank fees and commissions paid | (23,887) | (9,794) |
| Income taxes paid | (2,090) | (7,630) |
| Operating profit before changes in working capital | 27,099 | 25,382 |
| Increase in trade payables | 65,453 | 84,978 |
| Increase in inventories | (5,959) | (60,221) |
| Decrease in trade receivables | (9,002) | (14,536) |
| Net cash provided by operating activities | 77,591 | 35,603 |

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
For the year ended December 31, 2007

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|--|---|--|
| Cash flows from investing activities | | |
| Proceeds on sale of financial assets held for trading | - | 43,105 |
| Purchase of financial assets held for trading | - | (43,032) |
| Payments for acquisition of non-current assets | (40,585) | (16,500) |
| Proceeds on disposal of non-current assets | 1,370 | 7,864 |
| Interest received on investment loans and deposits | 2,722 | 3,528 |
| Net proceeds on sale of derivatives | (45,999) | 61 |
| Investment deposits and loans granted, net | (7,524) | (75,529) |
| Proceeds from disposal of subsidiaries, net of cash disposed | 30,428 | - |
| Proceeds from disposal of associates | 1,452 | - |
| Payments for subsidiaries net of acquired cash | <u>-</u> | <u>(32)</u> |
| Net cash provided by/(used in) investing activities | (58,136) | (80,535) |
| Cash flows from financing activities | | |
| Cash provided by the minority | 50 | - |
| Proceeds on bank and trade loans and bond issue | 491,611 | 1,018,147 |
| Bank and trade loans and bond issue repaid | (481,543) | (921,442) |
| Reacquisition of treasury shares | (24,687) | - |
| Dividends paid | (8,439) | (700) |
| Dividends paid back | 449 | - |
| Lease payments | <u>(2,072)</u> | <u>(1,431)</u> |
| Net cash provided by/(used in) financing activities | (24,631) | 94,574 |
| Net increase in cash and cash equivalents for the year | (5,176) | 49,642 |
| Cash and cash equivalents at the beginning of the year | <u>61,132</u> | <u>11,490</u> |
| Cash and cash equivalents at the end of year (see also note 26) | <u>55,956</u> | <u>61,132</u> |

These consolidated financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
 Executive Director

Desislava Todorova
 Chief Accountant

May 27, 2008

Sylvia Peneva
 Registered certified public accountant
 May 30, 2008

(The accompanying notes from page 55 to page 110 are an integral part of these consolidated financial statements).

**NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

1. Legal status

Petrol AD (the Parent company) is registered in Sofia. The headquarters of the Parent company is located at 43, Cherni Vruh Blvd. Sofia. As of the balance sheet date the majority shareholder of Petrol AD is Petrol Holding AD with 69.10% ownership of the share capital. The remaining part of the Parent company's share capital is owned by other legal entities, the State – through the Ministry of Economy and by individual shareholders (see note 34).

Effective from July 1, 1998 Petrol AD is registered as a public company in the Public Register of the Financial Supervision Commission.

The main activities of Petrol AD and its subsidiaries (the Group) comprise retail and wholesale of oil and non-oil products, rendering of transport services and maintenance. The Parent company is one of the oldest commercial companies in Bulgaria and owns the largest network of fuel stations in the country.

These consolidated financial statements were approved for issue by the management on May 27, 2008.

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

2.1. Basis for preparation of the consolidated financial statements

The Company prepares and presents its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union Commission (the Commission) and applicable in the Republic of Bulgaria. IFRS as adopted by the Commission do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of December 31, 2007, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the Commission. The management believes that if the hedge requirements have been approved by the Commission it would have no influence on these financial statements.

During 2007 the Company has adopted all new and revised IFRS by IASB, as approved by the Commission, effective for 2007, which refer to the Company's business, i.e. IFRS 7 Financial Instruments: Disclosure and amendments of IAS 1 Presentation of Financial Statements – equity disclosures. These amendments refer only to the inclusion of additional disclosures for financial instruments without having an effect on classifications and measurement of the assets and liabilities and the financial result of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

2.1. Basis for preparation of the consolidated financial statements (continued)

These financial statements are prepared under the historical cost convention, except for the assets (liabilities), which are stated at fair value – financial assets (liabilities), including derivatives, reported at fair value in the income statement and represent consolidated financial statements, the preparation of which is required by the Bulgarian accounting legislation and IAS 27 Consolidated and Separate Financial Statements.

2.2. Functional and presentation currency of the consolidated financial statements

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

The Group keeps its records and prepares its financial statements in the national currency of the Republic of Bulgaria - the Bulgarian Lev, which is adopted by the Company as its functional currency. Effective January 1, 1999, the Bulgarian Lev is fixed to the EUR at the rate of BGN 1.95583 = EUR 1.

These consolidated financial statements are presented in thousand Bulgarian Levs.

2.3. Foreign currency

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

The monetary positions denominated in foreign currency as of December 31, 2007 and 2006 are stated in these consolidated financial statements at the closing exchange rate of BNB. The closing exchange rates of BGN against USD as of the respective reporting period of the consolidated financial statements are as follows:

| | |
|--------------------|---------------------|
| December 31, 2007: | 1 USD = BGN 1.33122 |
| December 31, 2006: | 1 USD = BGN 1.48506 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

2.4. Subsidiary companies and consolidation

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

For consolidation purposes, the separate financial statements of the Parent company and its subsidiaries have been combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses.

For consolidation purposes all intragroup balances and intragroup transactions as of December 31, 2007 and in 2006, as well as all intragroup profits and losses, including unrealised profits and losses as of December 31, 2007 and 2006 are eliminated in full.

The carrying amount of the Parent company's investment in each subsidiary and the Parent company's portion of equity of each subsidiary are eliminated.

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

2.5. Associates

An associate is an enterprise over which the Parent company has significant influence. Significant influence is the right of participation in, but not control over, the financial and operating policy decisions of the investee.

Interests in associates are presented in the balance sheet in accordance with IAS 28 Investments in Associates, using the equity method of accounting, according to which the investment is recorded initially at cost as adjusted by post-acquisition changes in the investor's share in the net assets of the associate.

2.6. Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired entity as of the date of the exchange operation and is recognised as an asset. When the acquisition cost is lower than the fair value of the net assets acquired by the Group, the acquirer should reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the business combination and any excess remaining after that reassessment should be recognized immediately in profit or loss.

Subsequent to its initial recognition goodwill is not amortized, in compliance with IFRS 3, applicable for reporting periods after March 31, 2004. At the end of each reporting period a test for impairment is performed (see also note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

2.7. Accounting estimates and reasonable assumptions

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

2.8. Errors from prior periods

Prior period errors are omissions from, and misstatements in the Company's financial statements for prior periods arising from failure to use, or misuse of reliable information. This is information, which was available at the date of issue of the consolidated financial statements or information that could reasonably be expected to have been obtained and taken into account in preparation and presentation of those consolidated financial statements. Prior year errors may occur at recognition, measurement, presentation or disclosure of items of the consolidated financial statements. They are corrected by retrospective restatement of comparative data or the opening balances of assets, liabilities and equity (if they occurred in prior periods for which no data in the financial statements is presented). Corrections are recognized in the first set of consolidated financial statements authorized for issue after their discovery.

2.9. Changes in accounting policy

The Group changes its accounting policy when this change is required by a Standard or an Interpretation, or when the adopted change result in providing of reliable and more relevant information about the effects of transactions, other events or conditions, having effect on the entity's financial position, financial performance or cash flows.

Change in accounting policy as a result of the initial application of IFRS should be accounted in accordance with the transitional provisions of the respective IFRS (if any). Where there are no such provisions, the change is applied retrospectively by adjusting the opening balances of each item of the equity to which this applies or the other comparative amounts and by assuming that the newly adopted policy has always been applied.

3. Definition and valuation of the balance sheet and income statement items

3.1. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recognized and initially carried at cost, including the purchase price, import duties and non-refundable taxes, as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets, acquired by means of a business combination are carried at fair value. After initial recognition, property, plant and equipment and intangible assets are stated at cost less accumulated depreciation (amortization) and accumulated impairment loss, if any (see note 3.3).

Some tangible fixed assets, available at December 31, 2002, have been revalued by coefficients, based on the accounting legislation, applicable as of the end of 2001, as a result of which a revaluation reserve has been created. In compliance with the changes in accounting legislation, management has reviewed all material items of property, plant and equipment as of December 31, 2002 to verify the measurement of their carrying amount. Those assets, for which the carrying amount was materially different from their fair value, were revalued to their fair value as of the same date. The so formed revaluation reserve was added to the revaluation reserve, resulting from the accounting legislation applicable as of December 31, 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.1. Property, plant and equipment and intangible assets (continued)

When property, plant and equipment include parts with different useful lives and a cost that is significant in relation to the total cost of the item, such parts are recognized as separate assets.

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

Depreciation and amortization are charged over the estimated useful lives, using the straight-line method.

The assets' estimated useful lives are as follows:

| Useful life | 2007 | 2006 |
|------------------------------------|-------------------|-------------------|
| Administrative and trade buildings | 25 years | 25 years |
| Machines, fixtures and equipment | 2, 3 and 25 years | 2, 3 and 25 years |
| Vehicles | 5 and 10 years | 5 and 10 years |
| Office furniture | 7 years | 7 years |
| Intangible assets | 2 and 7 years | 2 and 7 years |

Depreciation of an asset begins in the month following the month in which the asset is available for use and ceases at the earlier of the date when 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 when the asset is derecognized.

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

3.2. Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation, or for both.

Investment property is measured at cost less accumulated depreciation and impairment loss, if any (see note 3.3).

When some properties comprise portion that is held to be used in Group's operations and portion to earn rentals, and these portions cannot be reported separately, these properties are presented in compliance with IAS 16 – Property, Plant and Equipment.

Depreciation on investment properties is charged to the income statement, by applying the straight line method, on the basis of their estimated useful life, as follows:

| Useful life | 2007 | 2006 |
|------------------------------------|-------------------|-------------------|
| Administrative and trade buildings | 25 years | 25 years |
| Machines, fixtures and equipment | 2, 3 and 25 years | 2, 3 and 25 years |
| Office furniture | 7 years | 7 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.3. Impairment of property, plant and equipment and intangible assets, investment property and goodwill

At the end of each reporting period, the management reviews the carrying amounts of property, plant and equipment, intangible assets, investment property and goodwill to determine whether there is any indication for impairment of these assets. If any such indication exists, the recoverable amount of the respective asset is estimated. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit, to which the asset belongs.

The recoverable amount is the higher of the asset's fair value less costs to sell the asset and its value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognized in the income statement immediately, unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease in the revaluation reserve (see note 3.1).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the revaluation reserve.

An impairment loss is recognized for a cash-generating unit to which goodwill was allocated if and only if the recoverable amount is lower than its carrying amount. The impairment loss is allocated to reduce the carrying amount of the assets in the cash-generating unit, first to reduce the carrying amount of goodwill and then, the carrying amount of other assets in the unit, pro rata on the basis of the carrying amount of each asset in the unit. The impairment loss of goodwill could not be reversed.

3.4. Non-current assets, held for sale

Non-current assets are classified as held for sale if their carrying amounts would be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition and its sale must be highly probable. These criteria are considered to be met only when the sale is very probable and the asset is available for sale in its present condition.

Non-current assets, held for sale are measured at the lower of carrying amount and fair value, less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.5. Inventories

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

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

| | |
|----------------------------|--|
| Petroleum | Specific identification price of each delivery |
| Fuel and other inventories | Weighted average cost |
| Materials | Weighted average cost |

3.6. Financial instruments

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

Financial assets (liabilities) are recognized in the consolidated balance sheet only when the Group becomes a party to the contractual provisions of the instrument. Financial assets are removed from the consolidated balance sheet after the contractual rights for receiving cash flows are expired or the asset is transferred and the transfer meets the derecognition requirements under IAS 39 Financial Instruments: Recognition and Measurement. Financial liability is removed from the consolidated balance sheet when, and only when, it is extinguished – that is when the obligation specified in the contract is discharged, cancelled, or expires.

On initial recognition financial assets (liabilities) are measured at fair value plus in case of financial asset or liability not measured at fair value through profit or loss transaction costs, directly attributable to the acquisition or issue.

For the purposes of subsequent measurement, the Group classifies the financial assets and financial liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement into the following categories: financial assets and financial liabilities reported at fair value through profit or loss, loans and other receivables and financial liabilities at amortized cost. The Group does not apply this classification of the assets and liabilities for the purpose of their presentation in the balance sheet. The information for the respective category of financial instruments is included in note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.6.1. Financial assets (liabilities), measured at fair value through profit or loss

A financial asset or liability is classified as held-for-trading, when it is acquired mainly for the purpose of selling or repurchasing in the near future or when it is a derivative instrument, for example options and futures contracts, concluded on international stock markets.

After their initial recognition these financial assets measured at fair value through profit or loss are measured at fair value as at the date of the preparation of the consolidated financial statements and differences from this value are recognized in the income statement for the period in which they originate.

3.6.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. In the balance sheet of the Group the assets from this category are presented as receivables on interest-bearing loans, trade and other receivables and cash.

Receivables on interest-bearing loans, trade and other receivables

After initial recognition, trade receivables and receivables on interest bearing loans are measured at amortized cost by using the effective interest rate method, less impairment loss, if any. Current receivables are not subject to amortization. Impairment loss is accrued if any objective evidence exists, such as material financial difficulties of the borrower, probability the borrower to be entered into bankruptcy other (see also note 3.6.3).

Cash and cash equivalents

For the purposes of the cash flow statement preparation, cash and cash equivalents comprise cash in hand, cash at banks and cash in transfer, with the exception of restricted cash, which the Group temporarily has no right to use. Cash in transfer comprise cash collected at the fuel stations as of the balance sheet date but actually received in Group cash accounts in the beginning of the next reporting period.

3.6.3. Impairment of financial assets

As of the date of the consolidated financial statements, the management reviews whether there is any indication for impairment of all financial assets, except for financial assets carried at fair value through profit or loss. Financial assets are impaired only when there is any objective evidence that as a result of one or more events occurred after their initial recognition, the expected cash flows has declined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.6.3. Impairment of financial assets (continued)

Impairment loss on loans and receivables stated at amortized cost is calculated as a difference between the carrying amount and the present value of future cash flows, discounted by the initial effective interest rate. Impairment loss is recognized in the income statement and is reversed if the subsequent increase of the recoverable amount objectively maybe related to an event occurring after the date on which the impairment has been recognized.

3.6.4. Financial liabilities at amortized cost

After their initial recognition, the Group measures all financial liabilities at amortized cost except for the financial liabilities at fair value through profit or loss; financial liabilities incurred when the transfer of an asset does not qualify for derecognition; financial guarantee contracts, commitments to provide a loan at below-market interest rate. These liabilities are presented in the Group's balance sheet as trade and other payables and interest bearing loans.

Trade and other payable

Trade and other payables are incurred as a result of the purchase of goods or services. Current liabilities are not amortized.

Interest bearing loans

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

Financial expenses, including direct issue costs, are accounted for on accrual basis in the profit and loss account using the effective interest rate method, except for transaction costs on bank overdrafts, which are recognized on a straight line basis for the overdraft period.

Interest bearing loans are classified as short-term when they are expected to be settled within twelve months from the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.6.5. Share capital and treasury shares

The share capital of the Parent company is presented at historical cost as of the date of its registration.

When at the balance sheet date the Group, through Parent company or subsidiary, has reacquired shares of the Parent company, their par value is deducted from share capital, and the difference paid below or above the par value – in retained earnings, according to IAS 32 Financial Instruments: Disclosure and Presentation.

3.7. Retirement employee benefits

The Government of the Republic of Bulgaria is to provide pensions according to defined retirement benefits schemes. Costs related to payment of contributions under these schemes are recognized by the Group in profit or loss for the period when they occur.

In accordance with the Labour Code, the Company has an obligation to pay retirement benefits to its employees, based on length of service, age and labour category. In accordance with the requirements of IAS 19 Employee benefits, the Group recognizes the present amount of the benefits as a liability. All actuarial gains and losses and past service cost are recognized immediately in the profit or loss.

3.8. Income tax

Income tax expense comprises current income tax and deferred tax.

The tax currently payable is based on the combined taxable profit (tax loss) for the year of each company within the Group, as reported in their separate corporate tax returns, 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) in future periods on taxable (deductible) temporary differences. Temporary difference is the difference between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred income taxes are calculated using the balance sheet liability method. Deferred tax liabilities are recognized for all taxable temporary differences, whereas deferred tax assets are recognized 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 utilized.

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 realized, based on the information that the Group is provided for as at date of the issuance of the financial statements. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also accounted directly in equity, without being recognized in the income statement.

Although income tax in Bulgaria is not calculated on a consolidation basis, the Group has adopted the policy of accruing deferred tax assets (liabilities) on all temporary differences, arising from the elimination of unrealized intra-group income from sale of non-current assets, which are treated as timing differences. These temporary differences are reversed by the subsequent adjustments to depreciation expenses by the acquiring company or upon disposal of the respective assets by the Group, when the profit on sale is realized for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.8. Income tax (continued)

These temporary differences are reversed by the subsequent adjustments to depreciation expenses by the acquiring company or upon disposal of the respective assets by the Group, when the profit on sale is realized for the Group.

The carrying amount of deferred tax assets is reviewed by the Group at each date of preparation of the consolidated financial statements and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or a part of the deferred tax asset to be utilized.

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 2007 and 2006, the tax rate applied for the calculation of the Group's current tax liabilities is 10% and 15%, respectively. Deferred tax assets and liabilities as of December 31, 2007 are calculated by using the tax rate at 10%, applicable for 2007.

3.9. Revenue and expenses recognition

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

Revenue is recognized at the fair value of the consideration received or receivable taking into account any discounts allowed and includes the gross inflow of economic benefits received by the Group on its own account. The amounts collected on behalf of third parties such as sales taxes like value added tax, are excluded from the income. Revenue from fuel sales are presented gross with the excise duty, which is considered an integral part of the price of the goods.

Revenue from sales of goods and production is recognized when:

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

When the outcome of a transaction involving rendering of services can be estimated reliably, revenue recognition is based on the stage of completion at the balance sheet date. If the outcome cannot be estimated reliably, revenue is recognized only to the extent that the expenses recorded are recoverable.

Gains or losses on sales of property, plant and equipment and intangible assets are stated as other income or other expense.

Interest income (expense) is accrued by using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.10. Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Assets acquired under finance lease are recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments, determined at the inception of the lease. The corresponding liability to the lessor is included in the Group's balance sheet as finance lease obligations.

Lease payments are apportioned between interest charges and principal payments, so as to achieve a constant rate of interest on the remaining balance of the liability.

A finance lease gives rise to depreciation expense for depreciable assets, as well as finance expense for each reporting period. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

Costs incurred for assets leased under operating leases are recognized in the income statement on a straight line basis over the lease term.

Lease income from operating leases is recognized as income on a straight line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are capitalized in the cost of the leased asset and are recognized as an expense on a straight line basis over the lease term.

3.11. Segment reporting

For the purposes of segment reporting, identifiable components from the Group's activity (reportable segments) are established, each of them referring to the provision of separate or group of products and services, which are subject to risks and return, different from those of the other business segments.

The results, assets and liabilities of the segment comprise such elements, which can be directly attributed to the segment, as well as elements, which can be allocated to the segment on a reasonable basis.

Capital expenditures of the segment represent investments, made in the period of acquisition of segment assets, which are expected to be used by the segment for more than one reporting period.

4. Critical accounting estimates and key sources of estimation uncertainty

In the application of the adopted accounting policy, management makes certain estimates (other than the disclosed in note 2.7), which have significant effect on these consolidated financial statements. Such estimates, by definition, may differ from actual results. Due to their nature, they are subject to constant review and update, and comprise the historical experience and other factors, including expectation of future events, which the management believes are reasonable under the present circumstances.

A critical accounting estimate, which includes significant risk of considerable adjustments to the carrying amount of assets and liabilities in subsequent reporting periods, is the test for impairment of goodwill, arising from a business combination.

As disclosed in notes 3.3, goodwill is not subject to amortisation, but is reviewed for impairment at each year end, as well as at any time when any indications for impairment exist.

As of December 31 2007 management has not identified any indications of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

4. Critical accounting estimates and key sources of estimation uncertainty (continued)

The impairment test of the goodwill from the acquisition of Naftex Petrol EOOD (see also note 21) has been performed as of December 31, 2007 by using the methodology of the discounted net cash flows. This methodology is based on current forecasts of net cash flows, prepared by management of the subsidiary for a three-year period after December 31, 2007. The net cash flows for the periods after the last forecast period, are calculated by applying the “eternal rent” method with discounting of the resulting terminal value by observing the above stated methodology. The applied discount rate of 9% is equal to the weighted average cost of the subsidiary’s equity. As of December 31, 2007, according to the calculation performed under the above methodology, the estimated value of the investment in the subsidiary exceeds the total amount of net assets and goodwill, goodwill has not been impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

5. Changes in IFRS

The stated below IFRS, amendments in IFRS and interpretations are adopted by IASB and IFRIC as of the date of issue of these financial statements, but are effective for annual periods after March 1, 2007.

| IFRS or IFRIC, effective date | Title of IFRS or IFRIC |
|--|---|
| IFRS 3, effective for annual periods beginning on or after July 1, 2009 | Business Combinations |
| IFRS 8, effective for annual periods beginning on or after January 1, 2009 | Operating Segments |
| IFRIC 11, effective for annual periods beginning on or after March 1, 2007 | IFRS 2: Group and Treasury Transactions |
| IFRIC 12, effective for annual periods beginning on or after January 1, 2008 | Service Concession Arrangements |
| IFRIC 13, effective for annual periods beginning on or after July 1, 2008 | Customer Loyalty Programmes |
| IFRIC 14, effective for annual periods beginning on or after January 1, 2008 | IAS 19: The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction |
| IAS 23 (amended) effective for periods beginning on or after January 1, 2009 | Borrowing Costs |
| IAS 1 (amended) effective for annual periods beginning on or after January 1, 2009 | Presentation of Financial Statements |
| IAS 27 (amended) effective for periods beginning on or after July 1, 2009 | Consolidated and Separate Financial Statements |
| IAS 28 (amended) effective for periods beginning on or after July 1, 2009 | Investments in Associates |
| IAS 31 (amended) effective for periods beginning on or after July 1, 2009 | Interests in Joint Ventures |
| IAS 32 (amended) effective for periods beginning on or after January 1, 2009 | Financial Instruments: Presentation |
| IFRS 2 (amended) effective for periods beginning on or after January 1, 2009 | Share-based Payment: terms and conditions for acquisition of rights and cancellations |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

5. Changes in IFRS (continued)

IFRIC 12 Service Concession Arrangements and IAS 23 (amended) Borrowing Costs have been suggested but not adopted by the European Union Commission as of the date on which the present consolidated financial statements have been authorized for issue. As of this date, IFRS 8 Operating Segments and IFRIC 11 IFRS 2: Group and Treasury Share Transactions have been approved for issue by the European Union Commission. No suggestions for endorsement of the rest of the above mentioned standards and interpretations have been made.

Most of the IFRS and IFRIC stated above are not applicable to the Group's activity. Therefore, they will have no material effect on the consolidated financial statements. The application of IAS 1 (amended) Presentation of Financial Statements will lead to change in the titles and presentation in the consolidated financial statements – mostly in the consolidated income statement and the consolidated statement of changes in shareholder's equity. The adoption of IAS 23 (amended) Borrowing Costs will have effect on the recognition of interest expenses as the expenses referring to the acquisition or construction of an asset will be capitalized in its cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

6. Revenue

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 (restated) |
|-------------------------|---------------------------------|---|
| Sales of goods | 1,327,519 | 1,297,842 |
| Sales of services | 55,575 | 48,097 |
| Sales of finished goods | <u>692</u> | <u>2,481</u> |
| Total | <u>1,383,786</u> | <u>1,348,420</u> |

Revenue from sales of goods consists of:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 (restated) |
|--|---------------------------------|---|
| Light fuels (gasoline, diesel oil and gas oil) | 1,276,735 | 1,253,913 |
| Lubricants and other goods | 43,133 | 35,052 |
| Heavy fuels (heating oil) | <u>7,651</u> | <u>8,877</u> |
| Total | <u>1,327,519</u> | <u>1,297,842</u> |

7. Other income

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|---------------------------------|---------------------------------|
| Liabilities written-off | 4,800 | - |
| Surplus of assets | 928 | 1,073 |
| Income from penalties | 694 | 1,364 |
| Gain on sales of non-current assets and materials, including: | - | 4,709 |
| <i>Income from sales of non-current asset and materials</i> | - | 7,472 |
| <i>Carrying amount of non-current assets and materials written-off</i> | - | (2,763) |
| Insurance claims | 286 | 584 |
| Other | <u>830</u> | <u>302</u> |
| Total | <u>7,538</u> | <u>8,032</u> |

The liabilities written-off are a result of adjustments made to the amount of trade payables to a Counterparty on the basis of a signed annex, which settles the balances with regard to a terminated contract for delivery of fuel as of December 31, 2007 (see also note 42.1.).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

8. Cost of goods sold

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 (restated) |
|---|---------------------------------|---|
| Light fuels (gasoline, diesel oil, gas oil) | 1,200,450 | 1,187,017 |
| Lubricants and other goods | 36,941 | 31,599 |
| Heavy fuels (heating oil) | <u>7,305</u> | <u>8,584</u> |
| Total | <u>1,244,696</u> | <u>1,227,200</u> |

9. Materials

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|-----------------------|---------------------------------|---------------------------------|
| Fuels | 2,967 | 3,094 |
| Electricity | 2,949 | 2,716 |
| Spare parts | 2,112 | 1,897 |
| Office consumables | 1,140 | 1,329 |
| Advertising materials | 1,101 | 1,935 |
| Working clothes | 400 | 524 |
| Water supply | 323 | 600 |
| Heating | 105 | 153 |
| Others | <u>239</u> | <u>228</u> |
| Total | <u>11,336</u> | <u>12,476</u> |

10. Hired services

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--------------------------|---------------------------------|---------------------------------|
| Commissions | 10,349 | 5,876 |
| Advertisement costs | 5,208 | 3,920 |
| Transportation | 4,762 | 9,062 |
| Consulting and training | 4,468 | 3,618 |
| Maintenance and repairs | 3,257 | 5,099 |
| Insurances | 2,429 | 1,050 |
| Security | 2,428 | 2,584 |
| Rents | 2,262 | 1,270 |
| Communications | 1,913 | 2,009 |
| Cash collection expenses | 1,444 | 1,713 |
| State and municipal fee | 753 | 804 |
| Others | <u>1,452</u> | <u>483</u> |
| Total | <u>40,725</u> | <u>37,488</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

11. Employee benefits expenses

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|---------------------------------|---------------------------------|
| Wages and salaries | 22,230 | 20,584 |
| Social security contributions and benefits | 5,998 | 6,071 |
| Employees retirement benefits | <u>58</u> | <u>470</u> |
| Total | <u>28,286</u> | <u>27,125</u> |

12. Depreciation and amortization expenses

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|---------------------------------|---------------------------------|
| Depreciation of property, plant and equipment | 16,701 | 17,807 |
| Depreciation of investment properties | 546 | 714 |
| Amortisation of intangible assets | <u>354</u> | <u>512</u> |
| Total | <u>17,601</u> | <u>19,033</u> |

13. Impairment of assets

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|---------------------------------|---------------------------------|
| Impairment of receivables | 6,847 | 29 |
| Impairment of non-current assets, investment property and inventories | 3 | 575 |
| Impairment of investments | <u>-</u> | <u>27</u> |
| Total | <u>6,850</u> | <u>631</u> |

The expenses for impairment of receivables in the current period comprise expenses for impairment of receivable at the amount of BGN 4,723 thousand for expenses incurred (state and lawyers' fees) under a litigation with a Counterparty (see also note 42.1), impairment of unrecoverable receivables from customers at the amount of BGN 2,108 thousand and impairment of receivables on litigation at the amount of BGN 16 thousand.

The major part of the expenses for impairment of non-current assets in the prior period at the amount of BGN 549 thousand originate in relation to the impairment of an investment property – land, contributed in-kind by the Parent company to one of the subsidiaries (see also note 19).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

14. Other expenses

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|--|--|
| Shortages and written-off assets | 6,098 | 5,557 |
| Loss on sale of non-current assets and materials, including | 4,665 | - |
| <i>Income from sale of non-current assets and materials</i> | <i>(1,253)</i> | <i>-</i> |
| <i>Carrying amount of sold non-current assets and materials</i> | <i>5,918</i> | <i>-</i> |
| Entertainment expenses and sponsorship | 3,686 | 998 |
| Taxes and tax charges | 2,698 | 1,717 |
| Penalties and indemnities | 1,083 | 2,633 |
| Business trips | 462 | 723 |
| Loss on liquidation, including | 117 | 373 |
| <i>Income from liquidation of non-current assets</i> | <i>(247)</i> | <i>(793)</i> |
| <i>Carrying amount of liquidated non-current asset</i> | <i>364</i> | <i>1,166</i> |
| Other | <u>667</u> | <u>788</u> |
| Total | <u>19,476</u> | <u>12,789</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

15. Finance income and costs

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|---------------------------------|---------------------------------|
| Finance income | | |
| Interest income on interest-bearing loans granted | 5,027 | 4,405 |
| Interest income on trade and other receivables | 1,371 | - |
| Other interest income | 368 | 279 |
| Gains on sales of financial assets | - | 73 |
| Gains from dealings with derivatives, including: | - | 1,661 |
| <i>Profit on dealings</i> | - | 1,916 |
| <i>Revaluations at fair value</i> | - | (255) |
| Gains on sale of subsidiaries, including: | 2,286 | - |
| <i>Income from sales</i> | 30,700 | - |
| <i>Net assets</i> | (28,414) | - |
| Foreign exchange rate gains, net | - | 1,519 |
| Discount of purchased receivables and other income | <u>57</u> | <u>97</u> |
| Total | <u>9,109</u> | <u>8,034</u> |
| Finance costs | | |
| Interest expenses on debenture loans | (20,393) | (4,254) |
| Interest expenses on bank loans received | (4,505) | (6,324) |
| Interest expenses on obligations under finance lease | (488) | (357) |
| Interest expenses on trade loans received | (246) | (250) |
| Interest expenses on trade and other payables | (40) | (1) |
| Loss from dealings with derivatives, including: | (40,089) | - |
| <i>Losses on transactions</i> | (33,869) | - |
| <i>Revaluations at fair value</i> | (6,220) | - |
| Loss from sale of associates, including: | (140) | - |
| <i>Income from sale</i> | 1,452 | - |
| <i>Carrying amount</i> | (1,592) | - |
| Foreign exchange rate losses, net | (407) | - |
| Bank fees, commissions and other costs | <u>(1,446)</u> | <u>(1,350)</u> |
| Total | <u>(67,754)</u> | <u>(12,536)</u> |

In accordance with the requirements of art. 114 of the Public Offering of Securities Act, the General and special meetings of the shareholders of the Parent company held in July and September 2007, respectively, empowered the Managing Board and the Executive Director to conclude contracts for the sale of seven subsidiaries and two associates. In July 2007 the Group sold its shares in the subsidiary New Co Zagora EOOD and realized profit at the amount of BGN 8,703 thousand and in September 2007 – the shares in the subsidiary Trans Operator EOOD and realized profit of BGN 322 thousand. In October 2007 100% of the shares in BPI EAD and 63.08% of the shares in Eurocapital Bulgaria EAD were also sold. As a result, losses of BGN 1,638 thousand and BGN 7,254 thousand, respectively, were incurred. The last three subsidiaries – Vratsata EOOD, Petrol Trade EOOD and Petrol Card Service EOOD were sold in November 2007. The profit from the disposal amounts to BGN 120 thousand, BGN 2,031 thousand and BGN 2 thousand, respectively. All of the above subsidiary companies are sold to the Controlling Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

15. Finance income and costs (continued)

The share of the Group in the net assets in the subsidiary companies sold in 2007 is as follows:

| | New Co EOOD | Trans Operator AD | BPI EAD | PCS EOOD | Vratsata EOOD | Petrol Trade EOOD | Eurocapital AD | Total |
|---|---------------------|-------------------------|---------------------|--------------------|---------------------|-------------------------|----------------------|----------------------|
| Property, plant and equipment and intangible assets | 759 | 1,400 | 6,830 | 3 | 436 | - | 41 | 9,469 |
| Investment property | - | - | - | - | - | - | 20,617 | 20,617 |
| Inventories and receivables | 383 | 1 | 369 | 340 | 9 | 530 | 15,603 | 17,235 |
| Cash and cash equivalents | 64 | 110 | 4 | 16 | 6 | 13 | 59 | 272 |
| Non-current assets held for trading | - | - | - | - | - | - | 1,387 | 1,387 |
| Trade and other payables | (94) | (1,833) | (2,564) | (365) | (560) | (2,574) | (970) | (8,960) |
| Income tax receivable (payable) | (2) | - | (13) | 4 | - | - | (44) | (55) |
| Deferred tax asset (liability) | <u>(13)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(11)</u> | <u>-</u> | <u>13</u> | <u>(11)</u> |
| Total net assets | <u>1,097</u> | <u>(322)</u> | <u>4,626</u> | <u>(2)</u> | <u>(120)</u> | <u>(2,031)</u> | <u>36,706</u> | <u>39,954</u> |
| Positive goodwill | | | 2,012 | | | | | 2,012 |
| Total net assets and positive goodwill | <u>1,097</u> | <u>(322)</u> | <u>6,638</u> | <u>(2)</u> | <u>(120)</u> | <u>(2,031)</u> | <u>36,706</u> | <u>41,966</u> |
| Residual investment of the Group | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | (13,552) | (13,552) |
| Group's share in the net assets of the disposed companies | 1,097 | (322) | 6,638 | (2) | (120) | (2,031) | 23,154 | 28,414 |
| Total cash proceeds from sale | 9,800 | - | 5,000 | - | - | - | 15,900 | 30,700 |
| Cash disposed | <u>(64)</u> | <u>(110)</u> | <u>(4)</u> | <u>(16)</u> | <u>(6)</u> | <u>(13)</u> | <u>(59)</u> | <u>(272)</u> |
| Net cash flow in the cash flow statement | <u>9,736</u> | <u>(110)</u> | <u>4,996</u> | <u>(16)</u> | <u>(6)</u> | <u>(13)</u> | <u>15,841</u> | <u>30,428</u> |

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for the year ended December 31, 2007

16. Taxation

Tax (income)/expense in the income statement includes the amount of current and deferred income taxes in accordance with the requirements of IAS 12 Income Taxes.

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 (restated) |
|---|--|---|
| Current tax expense | 355 | 3,644 |
| Change in deferred taxes, including: | | |
| <i>Temporary differences recognized during the year</i> | 508 | 1,440 |
| <i>Temporary differences originated during the year</i> | (3,111) | (760) |
| <i>Reduction in the tax rate</i> | <u>-</u> | <u>628</u> |
| Total change in deferred tax | <u>(2,603)</u> | <u>1,308</u> |
| Total tax expense (income) | <u>(2,248)</u> | <u>4,952</u> |

The change in the deferred tax, recognized in equity as of December 31, 2006 at the amount of BGN 1,600 thousand, results from a decrease in the corporate income tax rate for 2007 (see also note 3.8)

The deferred tax assets, presented net in the balance sheet, arises as a result of the income tax charges on deductible and taxable temporary differences, the effect of which is as follows:

:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

16. Taxation (continued)

| | December 31, 2007 BGN'000 | | December 31, 2006 BGN'000 (restated) | |
|--|------------------------------|---------------------|--|-----------------------|
| | Temporary difference | Tax effect | Temporary difference restated | Tax effect |
| Balance at the beginning of the period | | | | |
| Tax loss to be carried forward | 5,066 | 507 | 15,556 | 2,334 |
| Impairment of assets | 1,940 | 194 | 1,963 | 295 |
| Non-current assets | (20,972) | (2,096) | (28,738) | (4,311) |
| Liabilities related to employee benefits | <u>2,124</u> | <u>213</u> | <u>1,392</u> | <u>208</u> |
| Total | (11,842) | (1,182) | (9,827) | (1,474) |
| Originated during the period | | | | |
| Tax loss to be carried forward | 27,697 | 2,769 | - | - |
| Impairment of assets | 6,833 | 683 | 32 | 3 |
| Investment in associates | (16,869) | (1,687) | - | - |
| Non-current assets | (1,873) | (187) | 5,827 | 584 |
| Excess of interest payment | 10,973 | 1,098 | - | - |
| Subsequent remeasurement of financial assets | 2,708 | 271 | - | - |
| Liabilities related to employee benefits | 1,620 | 162 | 1,726 | 173 |
| Other | <u>24</u> | <u>2</u> | <u>-</u> | <u>-</u> |
| Total | 31,113 | 3,111 | 7,585 | 760 |
| Reversed during the period | | | | |
| Tax loss to be carried forward | (241) | (24) | (10,490) | (1,574) |
| Impairment of assets | 2 | - | (55) | (8) |
| Non-current assets | (3,692) | (369) | 1,939 | 291 |
| Liabilities related to employee benefits | <u>(1,148)</u> | <u>(115)</u> | <u>(994)</u> | <u>(149)</u> |
| Total | (5,079) | (508) | (9,600) | (1,440) |
| Disposed through business combinations | | | | |
| Impairment of assets | (125) | (12) | - | - |
| Non-current assets | 248 | 24 | - | - |
| Liabilities related to employee benefits | <u>(5)</u> | <u>(1)</u> | <u>-</u> | <u>-</u> |
| Total | 118 | 11 | - | - |
| Adjustment originated from the change in tax rate | | | | |
| Tax loss to be carried forward | - | - | - | (253) |
| Impairment of assets | - | - | - | (96) |
| Non-current assets | - | - | - | 1,340 |
| Liabilities related to employee benefits | <u>-</u> | <u>-</u> | <u>-</u> | <u>(19)</u> |
| Total | - | - | - | 972 |
| Balance at the end of the period | | | | |
| Tax loss to be carried forward | 32,522 | 3,252 | 5,066 | 507 |
| Impairment of assets | 8,650 | 865 | 1,940 | 194 |
| Investment in associates | (16,869) | (1,687) | - | - |
| Non-current assets | (26,289) | (2,628) | (20,972) | (2,096) |
| Excess of interest payment | 10,973 | 1,098 | - | - |
| Subsequent remeasurement of financial assets | 2,708 | 271 | - | - |
| Liabilities related to employee benefits | 2,591 | 259 | 2,124 | 213 |
| Other | <u>24</u> | <u>2</u> | <u>-</u> | <u>-</u> |
| Total | <u>14,310</u> | <u>1,432</u> | <u>(11,842)</u> | <u>(1,182)</u> |

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for the year ended December 31, 2007

16. Taxes (continued)

The reconciliation of the tax (income)/expense to the accounting profit/(loss), and the calculations of the effective tax rate as at December 31, 2007 and 2006, are as follows:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 (restated) |
|---|------------------------------|--|
| Consolidated accounting profit (loss) | (35,142) | 14,977 |
| Applicable tax rate | 10 % | 15 % |
| Income tax at the applicable tax rate | (3,514) | 2,247 |
| Combined tax effect on permanent differences | 386 | 1,549 |
| Combined effect from the application of different tax rates for calculation of deferred taxes | - | 176 |
| Decrease in the tax rate | - | 628 |
| Recognized tax asset from prior years | - | (46) |
| Tax effect from the difference between the tax and accounting revaluation reserve written off | 165 | (79) |
| Unrecognized tax asset in the current period | 87 | 40 |
| Tax effect on consolidation adjustments | <u>628</u> | <u>437</u> |
| Tax expense (income) | <u>(2,248)</u> | <u>4,952</u> |
| Effective tax rate | <u>6.39%</u> | <u>33.06%</u> |

The tax effect from the consolidation adjustments for the current period includes mainly the differences between the profit (losses) from the sales of subsidiaries and associates recognized in the separate and consolidated financial statements, the elimination of intra-group profit, originating as a result of the measurement of assets contributed in kind in a subsidiary at fair value, the effect of the application of the equity method, elimination of income and dividends recognized by the Group.

The tax effect from the consolidation adjustments as of December 31, 2006 includes mainly eliminations of dividend income and applying of equity-method, on which deferred tax assets are not recognised in the consolidated financial statements, because they are not temporary differences. The tax effect consists also of the difference of application of different tax rates for the purposes of calculation of the deferred taxes from consolidation adjustments and the current tax rate.

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17. Property, plant and equipment

| | Land | Buildings | Plant and equipment | Vehicles | Other | Assets under construction | Total |
|---|---------------|---------------|---------------------|---------------|---------------|---------------------------|-----------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| <i>Cost</i> | | | | | | | |
| Balance at January 1, 2006 | 50,122 | 68,636 | 159,795 | 16,204 | 21,722 | 2,348 | 318,827 |
| Additions | 17 | 22 | 566 | 7,781 | 336 | 13,184 | 21,906 |
| Impairment | - | - | - | (26) | - | - | (26) |
| Disposals | (297) | (1,395) | (4,954) | (3,811) | (1,212) | (28) | (11,697) |
| Transfers to non-current assets and investment properties | (1,493) | (813) | 1,747 | 88 | 266 | (2,493) | (2,698) |
| Balance at December 31, 2006 | 48,349 | 66,450 | 157,154 | 20,236 | 21,112 | 13,011 | 326,312 |
| Additions | 1,177 | - | 895 | 854 | 122 | 37,623 | 40,671 |
| Disposals | (4,844) | (2,431) | (2,977) | (165) | (126) | (21) | (10,564) |
| Disposed in business combinations | (436) | (8,123) | (8,870) | - | (745) | (411) | (18,585) |
| Transfers to non-current assets and investment properties | 259 | 7,933 | 26,050 | 10 | (574) | (33,677) | 1 |
| Balance at December 31, 2007 | 44,505 | 63,829 | 172,252 | 20,935 | 19,789 | 16,525 | 337,835 |
| <i>Accumulated depreciation</i> | | | | | | | |
| Balance at January 1, 2006 | - | 31,965 | 64,797 | 9,022 | 10,226 | - | 116,010 |
| Charged for the period | - | 1,724 | 10,414 | 2,675 | 2,994 | - | 17,807 |
| Disposals for the period | - | (598) | (3,864) | (3,078) | (1,184) | - | (8,724) |
| Transfers to non-current assets and investment properties | - | (328) | (157) | (13) | 103 | - | (395) |
| Balance at December 31, 2006 | - | 32,763 | 71,190 | 8,606 | 12,139 | - | 124,698 |
| Charged for the period | - | 1,707 | 8,990 | 2,982 | 3,022 | - | 16,701 |
| Disposals for the period | - | (1,331) | (2,011) | (147) | (93) | - | (3,582) |
| Disposed in business combinations | - | (1,744) | (7,073) | - | (328) | - | (9,145) |
| Transfers to non-current assets and investment properties | - | - | (4) | - | 4 | - | - |
| Balance at December 31, 2007 | - | 31,395 | 71,092 | 11,441 | 14,744 | - | 128,672 |
| Balance at January 1, 2006 | 50,122 | 36,671 | 94,998 | 7,182 | 11,496 | 2,348 | 202,817 |
| Carrying amount at December 31, 2006 | 48,349 | 33,687 | 85,964 | 11,630 | 8,973 | 13,011 | 201,614 |
| Carrying amount at December 31, 2007 | 44,505 | 32,434 | 101,160 | 9,494 | 5,045 | 16,525 | 209,163 |

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for the year ended December 31, 2007

17. Property, plant and equipment (continued)

Additions to assets under construction for the current year comprise mainly of expenses related to the construction of fuels stations under the Universal program.

As of December 31, 2007 land and buildings with carrying amount of BGN 22,536 thousand are mortgaged as collaterals under bank loans, extended to the Controlling company (see also note 43).

18. Intangible assets

| | Software | Licenses | Other | Assets under construction | Total |
|---|-------------------|-------------------|-------------------|---------------------------|---------------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| <i>Cost</i> | | | | | |
| Balance at January 1, 2006 | 1,178 | 1,014 | 406 | 52 | 2,650 |
| Additions | 124 | 10 | 2 | 170 | 306 |
| Disposals | (30) | (23) | (2) | - | (55) |
| Transfers | <u>232</u> | <u>-</u> | <u>(293)</u> | <u>(12)</u> | <u>(73)</u> |
| Balance at December 31, 2006 | 1,504 | 1,001 | 113 | 210 | 2,828 |
| Additions | 3 | 15 | 75 | 103 | 196 |
| Disposals | (2) | - | - | - | (2) |
| Disposed in business combinations | (30) | (16) | - | - | (46) |
| Transfers | <u>2</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2</u> |
| Balance at December 31, 2007 | 1,477 | 1,000 | 188 | 313 | 2,978 |
| <i>Accumulated amortization</i> | | | | | |
| Balance at January 1, 2006 | 691 | 150 | 228 | - | 1,069 |
| Charged for the period | 339 | 148 | 25 | - | 512 |
| Disposals for the period | (31) | (23) | (1) | - | (55) |
| Transfers | <u>96</u> | <u>-</u> | <u>(194)</u> | <u>-</u> | <u>(98)</u> |
| Balance at December 31, 2006 | 1,095 | 275 | 58 | - | 1,428 |
| Charged for the period | 169 | 149 | 36 | - | 354 |
| Disposals for the period | (2) | - | - | - | (2) |
| Disposed in business combinations | <u>(16)</u> | <u>(1)</u> | <u>-</u> | <u>-</u> | <u>(17)</u> |
| Balance at December 31, 2007 | 1,246 | 423 | 94 | - | 1,763 |
| Carrying amount at January 1, 2006 | <u>487</u> | <u>864</u> | <u>178</u> | <u>52</u> | <u>1,581</u> |
| Carrying amount at December 31, 2006 | <u>409</u> | <u>726</u> | <u>55</u> | <u>210</u> | <u>1,400</u> |
| Carrying amount at December 31, 2007 | <u>231</u> | <u>577</u> | <u>94</u> | <u>313</u> | <u>1,215</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

19. Investment property

| | Land | Buildings | Plant and equipment | Other | Total |
|--|---------------------|----------------------|------------------------|-------------------|----------------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| <i>Cost</i> | | | | | |
| Balance at January 1, 2006 | 2,443 | 18,818 | 2,019 | 1,847 | 25,127 |
| Additions | - | 109 | 46 | 60 | 215 |
| Transfers from non-current assets | 1,445 | 1,289 | 25 | 12 | 2,771 |
| Transfers to non-current assets held for trading | (390) | (1,030) | (4) | (5) | (1,429) |
| Disposals | (680) | (415) | (295) | (611) | (2,001) |
| Impairment | (549) | - | - | - | (549) |
| Balance at December 31, 2006 | 2,269 | 18,771 | 1,791 | 1,303 | 24,134 |
| Additions | 2,899 | - | 3 | 17 | 2,919 |
| Transfers to non-current assets | - | - | (3) | - | (3) |
| Disposals | - | - | (5) | - | (5) |
| Disposed in business combinations | (5,168) | (18,771) | (1,786) | (1,320) | (27,045) |
| Balance at December 31, 2007 | - | - | - | - | - |
| <i>Accumulated depreciation</i> | | | | | |
| Balance at January 1, 2006 | - | 2,851 | 1,501 | 1,181 | 5,533 |
| Charged for the period | - | 581 | 36 | 97 | 714 |
| Disposals for the period | - | (109) | (278) | (429) | (816) |
| Transfers from non-current assets | - | 328 | (15) | 180 | 493 |
| Transfers to non-current assets held for trading | - | (42) | - | - | (42) |
| Balance at December 31, 2006 | - | 3,609 | 1,244 | 1,029 | 5,882 |
| Charged for the period | - | 431 | 28 | 87 | 546 |
| Disposed in business combinations | - | (4,040) | (1,272) | (1,116) | (6,428) |
| Balance at December 31, 2007 | - | - | - | - | - |
| Carrying amount at January 1, 2006 | <u>2,443</u> | <u>15,967</u> | <u>518</u> | <u>666</u> | <u>19,594</u> |
| Carrying amount at December 31, 2006 | <u>2,269</u> | <u>15,162</u> | <u>547</u> | <u>274</u> | <u>18,252</u> |
| Carrying amount at December 31, 2007 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Property, plant and equipment, intangible assets and investment property disposed through business combinations include assets of subsidiaries sold in the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

20. Investments in associates and other investments

| | December 31, 2007 | | | December 31, 2006 | | |
|---|----------------------|-----------------|--|----------------------|-----------------|------------------------------------|
| | BGN'000 | % of capital | Share in profit (loss) for the period | BGN'000 | % of capital | Share in loss for the period |
| Investments in associates | | | | | | |
| Eurocapital Bulgaria AD | 14,925 | 36.92 % | 1,373 | - | - | - |
| Varna Business Services OOD | - | - | (224) | 1,816 | 42.69 % | (231) |
| Petrol Engineering AD, net of impairment | - | - | - | - | 40.00 % | - |
| Total | <u>14,925</u> | | <u>1,149</u> | <u>1,816</u> | | <u>(231)</u> |
| Other investments | | | | | | |
| Capital 3000 AD, net of impairment | - | 6.92 % | - | - | 6.92 % | - |
| Total | <u>-</u> | | <u>-</u> | <u>1,816</u> | | <u>(231)</u> |

In accordance with a decision of the General meeting of the shareholders (see also note 15) in the current year the Group sold its entire share in the associates Varna Business Services OOD and Petrol Engineering AD. The investment in Petrol Engineering AD was fully impaired in prior reporting periods. In 2007 the Group sold to the Ultimate controlling party seven of its subsidiaries. In one of them - Eurocapital Bulgaria AD, the Group kept participation of 36.92%. The investment in Eurocapital Bulgaria AD is reported in these consolidated financial statements as an investment in associate company.

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20. Investments in associates and other investments (continued)

The total amount of the assets, liabilities, income and financial results of the associates as of December 31, 2007 and 2006 is as follows:

| | Assets BGN'000 | Liabilities BGN'000 | Net assets BGN'000 | Revenue BGN'000 | Profit/ (loss) BGN'000 |
|-----------------------------|----------------------|------------------------|--------------------------|---------------------|------------------------------|
| December 31, 2007 | | | | | |
| Eurocapital Bulgaria AD | <u>63,881</u> | <u>2,706</u> | <u>61,175</u> | <u>2,138</u> | <u>(211)</u> |
| Total | <u>63,881</u> | <u>2,706</u> | <u>61,175</u> | <u>2,138</u> | <u>(211)</u> |
| December 31, 2006 | | | | | |
| Varna Business Services OOD | 7,191 | 2,936 | 4,255 | 2,116 | (539) |
| Petrol Engineering AD | <u>235</u> | <u>255</u> | <u>(20)</u> | <u>223</u> | <u>9</u> |
| Total | <u>7,426</u> | <u>3,191</u> | <u>4,235</u> | <u>2,339</u> | <u>(530)</u> |

21. Goodwill, net

| | Goodwill BGN'000 | Negative goodwill BGN'000 | Goodwill, net BGN'000 |
|---|----------------------|---------------------------------|-----------------------------|
| <i>Cost</i> | | | |
| Balance at January 1, 2006 | 20,309 | - | 20,309 |
| Balance at December 31, 2006 | 20,309 | - | 20,309 |
| Disposed in business combinations | (2,012) | - | (2,012) |
| Balance at December 31, 2007 | 18,297 | - | 18,297 |
| Carrying amount at January 1, 2006 | <u>20,309</u> | <u>-</u> | <u>20,309</u> |
| Carrying amount at December 31, 2006 | <u>20,309</u> | <u>-</u> | <u>20,309</u> |
| Carrying amount at December 31, 2007 | <u>18,297</u> | <u>-</u> | <u>18,297</u> |

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21. Goodwill, net (continued)

In the current year the Group sold its subsidiary BPI EAD to the Ultimate controlling party. As a result of this part of the goodwill at the amount of BGN 2,012 thousand was written-off, which originated upon the acquisition of the company.

22. Interest-bearing loans and deposits granted

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|---------------------------------|---------------------------------|
| Non-current receivables under interest-bearing loans | | |
| Non-current portion of interest-bearing loans, granted to related parties | <u>36,810</u> | <u>44,698</u> |
| Total | <u>36,810</u> | <u>44,698</u> |
| Current receivables under interest-bearing loans, deposits and finance lease | | |
| Current portion of interest-bearing loans and deposits granted to related parties | 40,677 | 39,746 |
| Finance lease receivables | 15 | 19 |
| Interest-bearing loans granted to other companies | <u>-</u> | <u>240</u> |
| Total | <u>40,692</u> | <u>40,005</u> |

Receivables on interest-bearing loans granted to related parties are disclosed in note 39.

23. Inventories

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|---------------------------------|---------------------------------|
| Light fuels (gasoline, diesel oil and gas oil) | 127,728 | 126,472 |
| Lubricants and other goods | 5,738 | 7,299 |
| Materials | 4,462 | 4,080 |
| Heavy fuels (heating oil) | <u>1,500</u> | <u>117</u> |
| Total | <u>139,428</u> | <u>137,968</u> |

As of December 31, 2007 inventories with a carrying amount of BGN 64,464 thousand are pledged as collateral under bank loans utilized by the Group (see also note 43).

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24. Trade and other receivables, net

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 (restated) |
|--|--|---|
| Trade receivables, net of impairment losses | 82,172 | 68,669 |
| <i>Initial cost</i> | 84,483 | 68,678 |
| <i>Impairment loss</i> | (2,311) | (9) |
| Tax recoverable, result of corrections of errors | 18,667 | 12,471 |
| Related party receivables | 7,553 | 9,472 |
| Litigations and writs, net of impairment losses | 507 | 547 |
| <i>Initial cost</i> | 5,745 | 1,049 |
| <i>Impairment loss</i> | (5,238) | (502) |
| VAT and excise duties refundable | 3,490 | - |
| Advances granted | 2,836 | 22,947 |
| Other, net of impairment losses | <u>5,829</u> | <u>3,960</u> |
| Total | <u>121,054</u> | <u>118,066</u> |

Overdue receivables at the amount of BGN 28,022 thousand and BGN 32,756 thousand are included in the balance of the trade and other receivables as of December 31, 2007 and 2006, respectively. The Group has no collateral for these receivables since there is no significant change in the quality of the creditworthiness of the counterparties and they are still considered recoverable.

The ageing analysis of the overdue, but not impaired receivables are presented in the table below:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|----------------|--|--|
| Up to 30 days | 12,036 | 15,926 |
| 31 - 120 days | 3,727 | 4,285 |
| 121 – 210 days | 2,022 | 3,945 |
| Over 211 days | <u>10,217</u> | <u>8,600</u> |
| Total | <u>28,002</u> | <u>32,756</u> |

The Group believes that overdue receivables are recoverable since as of the date of the authorization for issue of the present consolidated financial statements approximately 53% of them are paid. In addition, the overdue receivables at the amount of BGN 6,020 thousand, originating prior to 211 days as of December 31, 2007 are receivables from a customer with which the management is negotiating offsetting liabilities.

As of December 31, 2007 a company within the Group has receivables at the amount of BGN 25,291 thousand, which are provided as collateral under utilized bank loans (see also note 43).

Receivables from related parties are disclosed in note 39.

Group's management believes that the carrying amount of trade and other receivables approximates their fair value as of December 31, 2007 and 2006.

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25. Derivative financial assets

As of December 31, 2007 derivatives in the balance sheet of the Group comprise 2,000 put options crude oil with original value of BGN 3,326 thousand. As of December 31, 2007 these options were restated at fair value amounting to BGN 808 thousand and the difference is reported in the profit or loss (see also note 15).

26. Cash and cash equivalents

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|---------------------------------|---------------------------------|
| Cash at banks | 46,507 | 54,470 |
| Cash in transfer | 9,245 | 6,472 |
| Cash on hand | <u>204</u> | <u>190</u> |
| Cash and cash equivalents as of cash flow statements | <u>55,956</u> | <u>61,132</u> |
| Restricted cash | <u>11,581</u> | <u>1,855</u> |
| Total cash | <u>67,537</u> | <u>62,987</u> |

As of December 31, 2007 and 2006 restricted cash include margin deposits on derivative transactions amounting to BGN 10,656 thousand and BGN 1,855 thousand, respectively, as well as cash at bank accounts serving as collateral on a letter of credit and issued bank guarantees.

The cash in transfer comprises cash, collected from the fuel stations as of the balance sheet date, but deposited in the Group's bank accounts at the beginning of the next reporting period.

27. Current income tax receivable

Current income tax as calculated as a difference between the tax accrued and tax paid as of the balance sheet date.

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|---|--------------------------------|--|
| Income tax receivable as of January 1, net | 5,406 | 1,420 |
| Accrued corporate income tax | (355) | (3,644) |
| Paid-in corporate income tax | 2,090 | 7,630 |
| Disposed in business combinations | <u>55</u> | <u>-</u> |
| Income tax receivable as of December 31, net | <u>7,196</u> | <u>5,406</u> |

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for the year ended December 31, 2007

28. Non-current assets, held for sale

| | Land | Buildings | Plant and equipment | Other | Total |
|--|-------------------|-------------------|------------------------|-----------------|---------------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Balance at January 1, 2006 | <u>==</u> - | <u>==</u> - | <u>==</u> - | <u>==</u> - | <u>==</u> - |
| Transfers from investment properties, net | <u>390</u> | <u>988</u> | <u>4</u> | <u>5</u> | <u>1,387</u> |
| Balance at December 31, 2006 | <u>390</u> | <u>988</u> | <u>4</u> | <u>5</u> | <u>1,387</u> |
| Disposed in business combinations | <u>(390)</u> | <u>(988)</u> | <u>(4)</u> | <u>(5)</u> | <u>(1,387)</u> |
| Balance at December 31, 2007 | <u>==</u> - | <u>==</u> - | <u>==</u> - | <u>==</u> - | <u>==</u> - |

29. Trade and other payables, net

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 (restated) |
|---|--------------------------------|--|
| Payables to suppliers, net | 201,167 | 143,400 |
| VAT and excise duties payable | 59,686 | 57,407 |
| Related party payables | 3,050 | 2,022 |
| Payables to personnel and social security funds | 4,353 | 3,790 |
| Advances received | 1,018 | 983 |
| Other | <u>5,951</u> | <u>3,627</u> |
| Total | <u>275,225</u> | <u>211,229</u> |

Related party payables are disclosed in note 39.

The Group accrues liabilities for unused annual paid leave of employees in compliance with IAS 19 Employee Benefits. The movement of these liabilities for the reported periods is as follows:

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 |
|--|--------------------------------|--------------------------------|
| Balance at the beginning of the period | 1,667 | 1,409 |
| Accrued during the period | 1,562 | 1,263 |
| Utilized during the period | (1,084) | (1,005) |
| Disposed in business combinations | <u>(12)</u> | <u>-</u> |
| Balance at the end of the period, including: | <u>2,133</u> | <u>1,667</u> |
| <i>For salaries on unused paid leave</i> | <i>1,780</i> | <i>1,357</i> |
| <i>For social security contributions on unused paid leaves</i> | <i>353</i> | <i>310</i> |

The balance at the end of the period is presented in the balance sheet together with the current liabilities for employee benefits. The Group's management believes that the carrying amount of the Group's current liabilities, presented in the balance sheet as of December 31, 2007 and 2006, approximates their fair value.

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for the year ended December 31, 2007

30. Interest-bearing loans

| | December 31 | December 31 |
|--|-----------------------|-----------------------|
| | 2007 | 2006 |
| | BGN'000 | BGN'000 |
| Current liabilities under interest-bearing loans | | |
| Current portion of liabilities on bank loans | 59,091 | 48,741 |
| Current portion of liabilities on debenture loans | 18,335 | 3,055 |
| Current portion of liabilities on trade loans from related parties | <u>-</u> | <u>5,157</u> |
| Total | <u>77,426</u> | <u>56,953</u> |
| Non-current liabilities under interest-bearing loans | | |
| Non-current portion of liabilities on bank loans | - | 725 |
| Non-current portion of liabilities on debenture loans | <u>192,302</u> | <u>206,492</u> |
| Total | <u>192,302</u> | <u>207,217</u> |

For the current and prior reporting period the average interest rates on bank loans are in the range between 6.49% and 5.26%. Loans are secured by goods, cash at current account, receivables and promissory note.

In November 2003 the Parent company issued registered, dematerialised, ordinary, interest bearing and freely transferable corporate bonds at a total amount of BGN 15,000 thousand and a par value of BGN 1,000 per one bond. The maturity of the corporate bond is 5 years. The interest rate on the bond is 8.375% per annum. It is secured by a corporate guarantee, issued by the majority shareholder of the Parent company. Interest is payable twice a year, at every six months, for the term of the loan.

In October 2006 the Parent company issued 2,000 registered, transferable notes with fixed annual interest rate of 8.375% and issue price – 99.507% of the principal amount determined at EUR 50,000 for each note. The maturity date of the bond is in 5 years period. The issue is secured by Group's receivables under loans, granted to related parties and a corporate guarantee, issued by a subsidiary. The transaction costs for the bond issue amount to BGN 3,049 thousand. Interest is paid annually. The annual effective interest rate is 9.409%. The net proceeds of the issue of the notes would be used for the refinancing of existing debt, financing of working capital and capital expenditure. Regarding the debt restructuring, in 2006 the Group has repaid the most of its liabilities under bank loans.

Liabilities to related parties are stated in note 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

31. Obligations under finance lease

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------------|------------------------------|---|------------------------------|
| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
| Amounts payable under finance leases | | | | |
| Within one year | 2,445 | 2,360 | 2,085 | 1,955 |
| From one to two years | 1,520 | 2,187 | 1,304 | 1,913 |
| From two to five years | 2,262 | 3,097 | 2,066 | 2,774 |
| Over five years | - | 274 | - | 268 |
| Less: Interest payable | | | | |
| Within one year | (360) | (405) | - | - |
| From one to two years | (216) | (274) | - | - |
| From two to five years | (196) | (323) | - | - |
| Over five years | - | (6) | - | - |
| Present value of finance lease obligations | <u>5,455</u> | <u>6,910</u> | <u>5,455</u> | <u>6,910</u> |
| Less: Present value of finance lease obligations with maturity less than 1 year | | | (2,085) | (1,955) |
| Present value of finance lease obligations with maturity over 1 year | | | <u>3,370</u> | <u>4,955</u> |

Assets acquired by the Group under finance leases comprise of vehicles. The lease term of the contracts is between 3 to 6 years. As of December 31, 2007 the average interest rate under finance lease agreements is 7.5%.

Management believes that the fair value of the obligations under finance leases does not differ significantly from their carrying amount.

Liabilities under finance lease agreements are secured by promissory notes issued by the Group in favour of lessor that expire at the termination date of the respective agreement.

32. Derivative financial liabilities

Derivative financial instruments comprise revaluation at market prices of open positions as of December 31, 2007 and 2006 on signed standardized commodity futures and options contracts on NYMEX. Open positions represent 600 lots of crude oil futures sold (2006: 100 lots of crude oil sold) and 2,900 put options of crude oil bought (2006: 400 lots call options and 200 lots put options of crude oil bought and sold, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

33. Retirement benefits obligations

In the current period the Group has accrued liabilities for retirement benefits based on an actuary valuation, taking into consideration assumptions for mortality, disability, employment turnover, salaries' growth, etc. The present value of the liability is calculated by applying a discount factor of 4%.

The amount of liabilities for retirement benefits consist of as follows:

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 |
|---|---|---|
| Balance in the beginning of the period | 470 | - |
| Accrued interest during the period | 18 | - |
| Compensations paid during the period | (70) | - |
| Current length of service | 44 | - |
| Actuarial gain (loss) | <u>(4)</u> | <u>470</u> |
| Balance at the end of the period | <u>458</u> | <u>470</u> |

The effect on the gain or loss from the accrued compensation upon retirement is as follows:

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 |
|---|---|---|
| Accrued interest during the period | 18 | - |
| Amount of acquired rights during the period | 44 | - |
| Actuarial gain (loss) | <u>(4)</u> | <u>470</u> |
| Total | <u>58</u> | <u>470</u> |

34. Share capital

The share capital of the Group is presented at nominal value, according to the court decision for registration. During the current year the Group, through one of its subsidiary, performed block transactions on the Bulgarian Stock Exchange and acquired own shares. As a result of these transactions is realized a net loss of BGN 19,060 thousand recorded in accordance with IAS 32 Financial Instruments: Disclosure and Presentation directly in equity against retained earnings. The movement of the own shares bought back is disclosed in note 36.

As of December 31, 2007 and 2006 the shareholders of the Parent company are as follows:

| Shareholder | December 31, 2007 % of share capital | December 31, 2006 % of share capital |
|--|---|---|
| Petrol Holding AD | 69.10 | 71.75 |
| Naftex Refining and Petrochemical Engineering Services (former Naftex Oil Shipping Corporation Limited (UAE)) | 18.84 | 18.84 |
| Naftex Petrol AD | 5.15 | - |
| Ministry of Economics | 0.86 | 0.94 |
| Other minority shareholders | <u>6.05</u> | <u>8.47</u> |
| Total | <u>100.00</u> | <u>100.00</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

35. Revaluation reserve

The reserve from revaluation of non-current assets, net of accrued deferred tax, as of December 31, 2007 and 2006 at the amount of BGN 28,137 thousand and BGN 28,817 thousand, respectively, has been allocated as a result of revaluations of property, plant and equipment, intangible assets, and investment properties, carried out in the period 1998 – 2001, as well as of revaluation as of December 31, 2002, in relation to the first time application of IFRS in the preparation of the Parent company's separate financial statements.

36. Earnings/(loss) per share

Earnings/(loss) per share are calculated by dividing the net distributable profit/(loss) by the weighted average number of ordinary shares held during the reporting period. The Parent company has not issued any potential ordinary shares.

| | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| Weighted average number of shares (BGN'000) | 108,821 | 109,250 |
| Profit (loss) (BGN'000) | <u>(32,882)</u> | <u>10,025</u> |
| Earnings/(loss) per share (BGN) | <u>(0.30)</u> | <u>0.09</u> |

Weighted average number of shares in circulation in 2007 is as follows:

| Movement of ordinary shares during the reporting period | Issued ordinary shares (000) | Reacquired treasury shares (000) | Shares in circulation (000) |
|---|------------------------------|----------------------------------|-----------------------------|
| January 1, 2007 | 109,250 | - | 109,250 |
| November 28, 2007 | - | 2,377 | 106,873 |
| December 7, 2007 | - | 2,279 | 104,594 |
| December 10, 2007 | - | 170 | 104,424 |
| December 11, 2007 | - | 511 | 103,913 |
| December 12, 2007 | - | 77 | 103,836 |
| December 13, 2007 | - | 35 | 103,801 |
| December 18, 2007 | - | 13 | 103,788 |
| December 19, 2007 | - | 15 | 103,773 |
| December 20, 2007 | - | 70 | 103,703 |
| December 21, 2007 | - | 80 | 103,623 |
| 31 декември 2007 | <u>109,250</u> | <u>5,627</u> | <u>103,623</u> |

37. Dividends

In accordance with a decision of the General Meeting of the Parent company held on June 11, 2007 dividends distributed proportionally to the shareholders participation at the amount of BGN 0.077 per share (see also note 34).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

38. Subsidiaries

The subsidiaries, included in the consolidation, over which the Group has control as of December 31, 2007 and 2006 are as follows:

| Subsidiary | Main activity | Investment as of December 31, 2007 | Investment as of December 31, 2006 |
|--|---|---|---|
| Naftex Petrol EOOD | Wholesale with fuels | 100.0 % | 100.0 % |
| Petrol Trans Express EOOD | Transport services | 100.0 % | 100.0 % |
| Petrol Technika EOOD | Service and maintenance of fuel stations | 100.0 % | 100.0 % |
| New Co Zagora EOOD (former name Petrol Storage EOOD) | Power generation | - | 100.0 % |
| Petrol Trade EOOD | Trade | - | 100.0 % |
| BPI EAD | Trade with fuels and rent of property | - | 100.0 % |
| Eurocapital Bulgaria AD | Investment activity | 36.92 % | 100.0 % |
| Petrol Card Service EOOD | Trade with fuels with fleet cards | - | 100.0 % |
| Trans Operator AD (former name Translotto AD) | Trade, intermediation and representation | - | 99.9 % |
| Vratzata EOOD | Recreation services | - | 100.0 % |
| Petrol Gas OOD | Wholesale with fuels | 90% | - |
| Petrol Properties EOOD | Real estate and moveable property trade | 100% | - |

In accordance with the requirements of art. 114 of the Public Offering of Securities Act, the General and Special meetings of the shareholders of the Parent company in July and September 2007, respectively, empower the Managing Board and the Executive Director to conclude contracts for sale of seven subsidiaries (see also note 15). The subsidiaries are entirely transferred to the Ultimate controlling party, except for Eurocapital Bulgaria AD where the Group retains an effective share of 36.92% as a result of the in-kind contribution. In the present consolidated financial statements the Group's share in Eurocapital Bulgaria AD is presented as participation in associated company.

During the current year the Group establishes two new subsidiaries – Petrol Gas OOD and Petrol Properties EOOD. In the first company, established in May 2007 the Parent company owns 90% of the authorized capital. The second company, found in December 2007 is 100% owned by the Parent company.

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39. Disclosure of related parties and transactions

The related parties which the Parent company controls and has significant influence on are disclosed in notes 20 and 38.

The Parent company is controlled by Petrol Holding AD.

The following transactions with related parties have been performed during the current and prior reporting period:

Related party

| | |
|-----------------------------------|---|
| Petrol Holding AD | Ultimate controlling party |
| Varna Business Services OOD | Associate until the end of October |
| Izvor Bottling Company AD | Subsidiary of Petrol Holding AD |
| Air Lazur – General Aviation EOOD | Subsidiary of Petrol Holding AD |
| Interhotel Bulgaria Burgas EOOD | Subsidiary of Petrol Holding AD |
| Naftex Security EAD | Subsidiary of Petrol Holding AD |
| Ross Oil EOOD | Subsidiary of Petrol Holding AD |
| Transhold Bulgaria Holding AD | Subsidiary of Petrol Holding AD |
| Jurex Consult AD | Subsidiary of Petrol Holding AD |
| Tema Sport OOD | Subsidiary of Petrol Holding AD |
| PSFC Chernomorez AD | Subsidiary of Petrol Holding AD |
| Transat AD | Subsidiary of Transhold Bulgaria Holding AD |
| Trans Telecom EOOD | Subsidiary of Transhold Bulgaria Holding AD |
| Transcard AD | Subsidiary of Transhold Bulgaria Holding AD |
| Transcard Financial Services EAD | Subsidiary of Transcard AD |

The transactions performed relate primarily to:

- purchase and sale of liquid fuels and other goods;
- purchase and sale of property, plant and equipment;
- holding fees and services;
- rents;
- transport services;
- delivery of materials;
- maintenance and repairs;
- legal advices;
- telecommunication services;
- other.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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39. Disclosure of related parties and transactions (continued)

The volume of the transactions performed with related parties for 2007 and 2006 are as follows:

| Related parties | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--------------------------------|---|---|---|---|
| | Sale of goods, non-current assets and services | Sale of goods, non-current assets and services | Purchase of goods, non-current assets and services | Purchase of goods, non-current assets and services |
| Ultimate controlling party | 674 | 716 | 3,528 | 5,088 |
| Companies under common control | 4,234 | 41,239 | 17,712 | 8,953 |
| Associates | <u>-</u> | <u>55</u> | <u>-</u> | <u>493</u> |
| Total | <u>4,908</u> | <u>42,010</u> | <u>21,240</u> | <u>14,534</u> |
| | | | | |
| Related parties | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
| | Finance income | Finance income | Finance cost | Finance cost |
| Ultimate controlling party | 2,147 | 4,405 | 246 | 250 |
| Companies under common control | 76 | - | - | - |
| Associates | <u>1,149</u> | <u>-</u> | <u>-</u> | <u>231</u> |
| Total | <u>3,372</u> | <u>4,405</u> | <u>246</u> | <u>481</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

39. Disclosure of related parties and transactions (continued)

As of December 31, 2007 and 2006 the unsettled balances with related parties are as follows:

| Related parties | December 31, 2007 BGN'000 Receivables | December 31, 2006 BGN'000 Receivables | December 31, 2007 BGN'000 Payables | December 31, 2006 BGN'000 Payables |
|---|--|--|---|---|
| Ultimate controlling party, including: | 56,435 | 85,372 | 804 | 5,863 |
| <i>Interest-bearing loans – non-current portion</i> | <i>36,810</i> | <i>44,698</i> | - | - |
| <i>Interest-bearing loans – current portion</i> | <i>15,846</i> | <i>39,695</i> | - | <i>5,157</i> |
| Companies under common control, including: | 28,605 | 8,441 | 2,246 | 1,256 |
| <i>Interest-bearing loans – current portion</i> | <i>24,831</i> | <i>51</i> | - | - |
| Associates | - | <u>103</u> | - | <u>60</u> |
| Total | <u>85,040</u> | <u>93,916</u> | <u>3,050</u> | <u>7,179</u> |

The total amount of management remuneration of the members of the Managing Board and of the Supervisory Board amount to 1,010 thousand and 821 thousand respectively.

40. Segment reporting

The Group has identified the following business segments, based on the organizational structure and the activities effected:

- **Wholesale of fuels**- wholesale of oil products and storage services in own storage facilities of the Group;
- **Retail of fuels** – retail trade of oil and other products in network of own fuel stations of the Group;
- **Other activities** – Transportation of oils with own and hired vehicles, maintenance and repairs of fuel stations and accompanied facilities for trade and services, rental income and other activities.

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for the year ended December 31, 2007

40. Segment reporting (continued)

| December 31, 2007 | Wholesale of fuels BGN'000 | Retail of fuels BGN'000 | Other activities BGN'000 | Eliminations BGN'000 | Consolidated BGN'000 |
|---|----------------------------------|-------------------------------|--------------------------------|-------------------------|-------------------------|
| Income | | | | | |
| External sales | 602,340 | 777,000 | 11,984 | - | 1,391,324 |
| Inter-segment sales | <u>74,341</u> | <u>3,389</u> | <u>15,054</u> | <u>(92,784)</u> | <u>-</u> |
| Total revenue | 676,681 | 780,389 | 27,038 | (92,784) | 1,391,324 |
| Segment operating profit | 16,692 | 1,833 | 3,829 | - | 22,354 |
| Share of net profits of associates | - | - | - | - | 1,149 |
| Foreign exchange rate losses, net | - | - | - | - | (407) |
| Loss on sale of financial assets and dealing with derivatives | - | - | - | - | (40,089) |
| Gain on sale of subsidiaries and associates | - | - | - | - | 2,146 |
| Interests on loans received and granted and other finance income and costs, net | - | - | - | - | (20,295) |
| Tax income | - | - | - | - | <u>2,248</u> |
| Net loss of the Group | - | - | - | - | <u>(32,894)</u> |
| <i>Total minority interest</i> | - | - | - | - | (12) |
| <i>Owned by the Group</i> | - | - | - | - | (32,882) |
| Segment assets | 306,335 | 318,910 | 16,955 | - | 642,200 |
| Investments in associates | - | - | 14,925 | - | 14,925 |
| Segment liabilities | 186,660 | 361,239 | 6,924 | - | 554,823 |
| Depreciation and amortization | 2,741 | 10,470 | 4,390 | - | 17,601 |
| Capital expenditure | 4,966 | 34,408 | 4,412 | - | 43,786 |
| Impairment of segment assets | 2,113 | 4,722 | 15 | - | 6,850 |

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40. Segment reporting (continued)

| December 31, 2006 | Wholesale of fuels BGN'000 | Retail of fuels BGN'000 | Other activities BGN'000 | Eliminations BGN'000 | Consolidated BGN'000 |
|---|----------------------------------|-------------------------------|--------------------------------|-------------------------|-------------------------|
| Income | restated | restated | | restated | restated |
| External sales | 706,793 | 633,123 | 16,536 | - | 1,356,452 |
| Inter-segment sales | <u>51,150</u> | <u>4,371</u> | <u>18,242</u> | <u>(73,763)</u> | - |
| Total revenue | 757,943 | 637,494 | 34,778 | (73,763) | 1,356,452 |
| Segment operating profit (loss) | (616) | 13,138 | 7,188 | - | 19,710 |
| Share of net profits of associates | - | - | (231) | - | (231) |
| Foreign exchange rate gains, net | - | - | - | - | 1,519 |
| Gain on sale of financial assets and dealing with derivatives | - | - | - | - | 1,734 |
| Interests on loans received and granted and other finance income and costs, net | - | - | - | - | (7,755) |
| Tax expense | - | - | - | - | <u>(4,952)</u> |
| Net profit of the Group | | | | | <u>10,025</u> |
| <i>Total minority interest</i> | - | - | - | - | - |
| <i>Owned by the Group</i> | - | - | - | - | - |
| Segment assets | 307,042 | 284,517 | 60,533 | | 652,092 |
| Investments in associates | - | - | 1,816 | - | 1,816 |
| Segment liabilities | 146,699 | 324,529 | 11,806 | - | 483,034 |
| Depreciation and amortization | 2,553 | 11,678 | 4,802 | - | 19,033 |
| Capital expenditure | 3,856 | 9,972 | 8,599 | - | 22,427 |
| Impairment of segment assets | - | - | 631 | - | 631 |

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41. Financial instruments and risk management

The carrying amounts of assets and liabilities as of December 31, 2007 and 2006 by categories are set in accordance with IAS 39 Financial instruments: Recognition and Measurement and are presented in the following tables:

| December 31, 2007 BGN'000 | <i>Note</i> | At fair value through profit or loss | Loans and receivables | Total |
|--|-------------|---|----------------------------------|-----------------------|
| Interest-bearing loans granted | 22 | - | 77,502 | 77,502 |
| Trade and other receivables, net | 24 | - | 98,249 | 98,249 |
| Derivative financial assets | 25 | 808 | - | 808 |
| Cash and cash equivalents | 26 | - | 67,537 | 67,537 |
| Total | | <u>808</u> | <u>243,288</u> | <u>244,096</u> |

| December 31, 2006 BGN'000 | <i>Note</i> | At fair value through profit or loss | Loans and receivables | Total |
|--|-------------|---|----------------------------------|-----------------------|
| Interest-bearing loans granted | 22 | - | 84,703 | 84,703 |
| Trade and other receivables, net | 24 | - | 105,123 | 105,123 |
| Cash and cash equivalents | 26 | - | 62,987 | 62,987 |
| Total | | <u>-</u> | <u>252,813</u> | <u>252,813</u> |

| December 31, 2007 BGN'000 | <i>Note</i> | At fair value through profit or loss | At amortized cost | Total |
|--|-------------|---|--------------------------|-----------------------|
| Trade and other payables | 29 | - | 211,095 | 211,095 |
| Interest-bearing loans | 30 | - | 269,728 | 269,728 |
| Finance lease payables | 31 | - | 5,455 | 5,455 |
| Derivative financial liabilities | 32 | 3,957 | - | 3,957 |
| Total | | <u>3,957</u> | <u>486,278</u> | <u>490,235</u> |

| December 31, 2006 BGN'000 | <i>Note</i> | At fair value through profit or loss | At amortized cost | Total |
|--|-------------|---|------------------------------|-----------------------|
| Trade and other payables | 29 | - | 149,981 | 149,981 |
| Interest-bearing loans payables | 30 | - | 264,170 | 264,170 |
| Obligation under finance lease | 31 | - | 6,910 | 6,910 |
| Derivative financial liabilities | 32 | 255 | - | 255 |
| Total | | <u>255</u> | <u>421,061</u> | <u>421,316</u> |

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41. Financial instruments and risk management (continued)

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

Market risk

Market risk is the risk of changes of fair value of financial instruments or their future cash flows due to fluctuations in market prices and could reveal as exchange rate, interest or other price risk.

Exchange rate risk

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

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

| | December 31, 2007 | | December 31, 2006 | |
|------------------------------------|--------------------------------------|------------------------|--------------------------------------|------------------------|
| | Original currency in thousands | BGN'000 | Original currency in thousands | BGN'000 |
| Trade and other receivables | 9,937 | 13,228 | 843 | 1,252 |
| Cash and cash equivalents | 4,683 | 6,234 | 30,757 | 45,676 |
| Derivative financial assets | <u>607</u> | <u>808</u> | <u>-</u> | <u>-</u> |
| Total financial assets | <u>15,227</u> | <u>20,270</u> | <u>31,600</u> | <u>46,928</u> |
| Trade and other payables | (12,262) | (16,323) | (8,861) | (13,159) |
| Interest-bearing loans | (1,934) | (2,575) | - | - |
| Derivative financial liabilities | <u>(2,973)</u> | <u>(3,957)</u> | <u>(172)</u> | <u>(255)</u> |
| Total financial liabilities | <u>(17,169)</u> | <u>(22,855)</u> | <u>(9,033)</u> | <u>(13,414)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

41. Financial instruments and risk management (continued)

Exchange rate risk sensitivity analysis is conducted at 6% change of the exchange rate USD/BGN. Management believes that this is a reasonable change based on a statistical analysis of exchange rate dynamics in the past year, conducted on the basis of daily deviation, calculated for 250 days. If as of December 31, 2007 USD had gone cheaper/more expensive by 6% towards BGN and all other risk variables held constant, the net loss for the period would have decreased/increased by BGN 140 thousand. Under the same conditions the net profit for 2006 would have decreased/increased by BGN 1,709 thousand. Changes in the exchange rate would affect the financial result after taxes for current and prior year in the opposite direction due to the fact that as of December 31, 2007 net assets, denominated in USD are negative and as of December 31, 2006 net assets are positive. In addition, the financial result after taxes for 2006 is more sensitive to exchange rate fluctuations due to the significantly greater amount of cash, denominated in USD.

Interest risk

The Group is exposed to interest rate risk since part of its trade receivables and payables, as well as a received bank loan and granted trade loans bear variable interest rates, contracted at some base interest rate (Bulgarian base interest rate, LIBOR, EURIBOR, SOFIBOR) plus an interest rate margin.

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

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|--|--|
| Fixed interest rate instruments | | |
| Financial liabilities | (211,503) | (212,056) |
| Total | <u>(211,503)</u> | <u>(212,056)</u> |
| Floating interest rate instruments | | |
| Financial assets | 124,098 | 100,578 |
| Financial liabilities | <u>(63,680)</u> | <u>(59,025)</u> |
| Total | <u><u>60,418</u></u> | <u><u>41,553</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

41. Financial instruments and risk management (continued)

Interest rate risk sensitivity analysis is based on the assumption that the floating interest rate positions as of the balance sheet date have existed at the same amount during the entire year and the reasonable increase/decrease of the interest rate is 30 base points. If the interest rates had been higher/lower than 30 base points, all other variables held constant, the net loss for the year would have been BGN 118 thousand lower/higher (2006: BGN 105 thousand).

Price risk

Investments in derivative instruments expose the Group to price risk. In case the quotation of petrol increases/decreases with USD 28 and all other risk variables remain constant, the net loss for the current year would increase or decrease with BGN 25,050 thousand or BGN 30,729 thousand, respectively, due to the revaluation of the derivative instruments. The net profit for the previous year would decrease or increase with BGN 12,649 thousand or BGN 8,869 thousand, respectively, at the same conditions. For the purpose of analyzing susceptibility to price risk, the loss caused by change in petrol quotations is limited to the amount of the premium paid for the positions under option contracts, not closed as of the end of the corresponding period. The financial result after taxation for the current year is more sensitive to price risk compared to the result from the previous year due to the increased number of futures and option contracts.

Credit risk

Credit risk is the risk for one of the parties on the financial instrument to fail to perform its obligation and in this way to cause loss for the other. Financial assets which potentially expose the Group to credit risk are mainly trade receivables and receivables on interest loans granted.

Maximum credit risk exposure of trade receivables as of December 31, 2007 and 2006 by types of customers is as follows:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|-----------------------------|--|--|
| Wholesale customers of fuel | 38,024 | 35,105 |
| Retail customers of fuel | 43,514 | 32,465 |
| Other | <u>634</u> | <u>1,099</u> |
| Total | <u>82,172</u> | <u>68,669</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

41. Financial instruments and risk management (continued)

Sales to retail customers are settled mainly in cash or by using credit cards. The Group's policy, regarding customers with negotiated credit periods for payments, aims at performing sales to customers with good credit standing. With a view to decrease the credit risk, the Group has adopted a policy for preliminary evaluation of these customers. In compliance with this policy customers are evaluated, based on information from different sources – customer's counterparties, servicing banks, appraisals of rating agencies and other. The contracts with customers foresee certain credit limits, agreed separately with each customer, which can not be exceeded and credit periods within particularly defined number of days, after the expiration of which and in case the customer fails to pay, penalty interests are accrued.

About 74% of the Group's income from wholesales of fuel for the current year and 44% of the income for the prior year are realized from sales to six major customers. The receivables from sales from these customers as of December 31, 2007 and 2006 amount to BGN 22,542 thousand and BGN 9,549 thousand, which represents 59% and 27%, respectively of the total net amount of the receivables from wholesale customers.

Receivables from related parties as of December 31, 2007 and 2006 comprise mostly receivables under granted interest bearing loans and deposits, which are not collateralized, and this results in a concentration of significant credit risk. The management believes that the risk is manageable, since the loans are granted to the Ultimate parent company and the companies under common control.

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

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

Liquidity risk

Liquidity risk is the risk for the Group to fail to perform its due financial liabilities. The policy in this area is focused on securing enough liquid funds to serve the due liabilities, both in extraordinary or unexpected circumstances. The management aims at maintaining a permanent balance between continuity and flexibility of the financial resources by using different forms of financing. Management of liquidity risk includes maintenance of enough cash, negotiation of adequate credit lines, preparation, analysis and update forecasts of cash flows.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

41. Financial instruments and risk management (continued)

| December 31, 2007 BGN' 000 | Up to 1 year | From 1 to 2 years | From 3 to 5 years | Over 5 years | Total |
|---|-----------------------|------------------------------------|------------------------------------|-------------------------------|-----------------------|
| Liabilities on bank loans | 59,696 | - | - | - | 59,696 |
| Liabilities on debenture loans | 34,456 | 18,200 | 228,950 | - | 281,606 |
| Obligation under finance lease | 2,445 | 1,520 | 2,262 | - | 6,227 |
| Trade and other payables | 210,933 | - | - | - | 210,933 |
| Derivative financial liabilities | <u>3,957</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,957</u> |
| Total | <u>311,487</u> | <u>19,720</u> | <u>231,212</u> | <u>-</u> | <u>562,419</u> |
| December 31, 2006 BGN' 000 | Up to 1 year | From 1 to 2 years | From 3 to 5 years | Over 5 years | Total |
| Liabilities on bank loans | 49,121 | 733 | - | - | 49,854 |
| Liabilities on debenture loans | 19,304 | 34,456 | 247,150 | - | 300,910 |
| Liabilities on trade loans | 5,900 | - | - | - | 5,900 |
| Trade and other payables | 149,298 | - | - | - | 149,298 |
| Obligation under finance lease | 2,360 | 2,187 | 3,097 | 274 | 7,918 |
| Derivative financial liabilities | <u>255</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>255</u> |
| Total | <u>226,238</u> | <u>37,376</u> | <u>250,247</u> | <u>274</u> | <u>514,135</u> |

Equity management

The Group manages its equity by striving to maximize the return for the shareholders by optimizing the debt and equity ratio. The objective of the management is to retain the trust of the investors, creditors and the market and to guarantee the future development of the Group. The management observes the equity structure on the basis of the net debt to equity ratio. The net debt includes long-term and short-term interest-bearing loans, and long-term and short-term finance lease payables, less cash. Equity own by the owners of the Parent company – share capital, reserves and accumulated profit, as well as minority interest form the equity and reserves of the Group.

The maintaining and adjusting of the equity structure is done in close relation to the changes in the economic environment, as well as in relation to risk level, which is inherent to the respective projects, in which investments are made. The basic instruments, which are used for equity structure management are: dividend policy; issue or redemption of issued equity and debt instruments; disposal of assets and investments, in order to decrease the level of indebtedness, refinancing of debt by issue of instruments with longer maturity and other. All decisions for changes in this respect are made taking into consideration the balance between the price and the risks inherent for the different financing sources.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

41. Financial instruments and risk management (continued)

| | December 31, 2007 | December 31, 2006 |
|-----------------------------|-----------------------|-----------------------|
| Debt | 275,183 | 271,080 |
| Cash and cash equivalents | <u>(67,537)</u> | <u>(62,987)</u> |
| Net debt | 207,646 | 208,093 |
| Equity | <u>103,734</u> | <u>169,692</u> |
| Debt to equity ratio | 2.00 | 1.23 |

42. Errors in prior reporting periods

The effects from correction of errors occurred in the calculation of some items in the income statement for 2006 are presented in the table below:

| Changes in income statement | December 31, 2006 audited | December 31, 2006 effect of errors | December 31, 2006 restated |
|---|---------------------------------|--|----------------------------------|
| | BGN' 000 | BGN' 000 | BGN' 000 |
| Revenue | 1,293,221 | 55,199 | 1,348,420 |
| Other income | 8,032 | - | 8,032 |
| Cost of goods sold | (1,168,710) | (58,490) | (1,227,200) |
| Materials | (12,476) | - | (12,476) |
| Hired services | (37,488) | - | (37,488) |
| Employee benefits expenses | (27,125) | - | (27,125) |
| Depreciation and amortization expenses | (19,033) | - | (19,033) |
| Impairment of assets | (631) | - | (631) |
| Other expenses | (12,789) | - | (12,789) |
| Finance income | 8,034 | - | 8,034 |
| Finance cost | (12,536) | - | (12,536) |
| Share of loss of associates | <u>(231)</u> | <u>-</u> | <u>(231)</u> |
| Profit (loss) before taxation | 18,268 | (3,291) | 14,977 |
| Tax income (expense) | <u>(5,191)</u> | <u>239</u> | <u>(4,952)</u> |
| Net profit (loss) for the period | <u>13,077</u> | <u>(3,052)</u> | <u>10,025</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

42. Errors in prior reporting periods

| Changes in balance sheet | January 1, 2006 audited | January 1, 2006 effect of errors | January 1, 2006 restated | December 31, 2006 audited | December 31, 2006 effect of errors | December 31, 2006 reclassified | December 31, 2006 restated |
|---|-------------------------------|--|--------------------------------|---------------------------------|--|--------------------------------------|----------------------------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Non-current assets | | | | | | | |
| Property, plant and equipment | 202,817 | - | 202,817 | 201,614 | - | - | 201,614 |
| Intangible assets | 1,581 | - | 1,581 | 1,400 | - | - | 1,400 |
| Investment properties | 19,594 | - | 19,594 | 18,252 | - | - | 18,252 |
| Investments in associated and other companies | 2,074 | - | 2,074 | 1,816 | - | - | 1,816 |
| Goodwill, net | 20,309 | - | 20,309 | 20,309 | - | - | 20,309 |
| Interest-bearing loans granted | - | - | - | 44,698 | - | - | 44,698 |
| Total non-current assets | 246,375 | - | 246,375 | 288,089 | - | - | 288,089 |
| Current assets | | | | | | | |
| Inventories | 82,290 | - | 82,290 | 137,968 | - | - | 137,968 |
| Trade and other receivables, net | 80,821 | 5,292 | 86,113 | 81,901 | 36,528 | (363) | 118,066 |
| Interest-bearing loans granted | 21,498 | - | 21,498 | 39,746 | - | 259 | 40,005 |
| Cash and cash equivalents | 11,490 | - | 11,490 | 62,987 | - | - | 62,987 |
| Current income tax receivables | - | 1,420 | 1,420 | - | 5,406 | - | 5,406 |
| Non-current assets, held for sale | - | - | - | 1,387 | - | - | 1,387 |
| Total current assets | 196,099 | 6,712 | 202,811 | 323,989 | 41,934 | (104) | 365,819 |
| Total assets | 442,474 | 6,712 | 449,186 | 612,078 | 41,934 | (104) | 653,908 |
| Current liabilities | | | | | | | |
| Trade and other payables, net | 109,018 | 14,005 | 123,023 | 163,056 | 48,532 | (359) | 211,229 |
| Interest-bearing loans | 91,580 | - | 91,580 | 56,953 | - | - | 56,953 |
| Obligations under finance lease | 428 | - | 428 | 1,955 | - | - | 1,955 |
| Derivative financial liabilities | - | - | - | - | - | 255 | 255 |
| Current income tax | 3,396 | (3,396) | - | 328 | (328) | - | - |
| Retirement benefits obligations | - | - | - | 32 | - | - | 32 |
| Total current liabilities | 204,422 | 10,609 | 215,031 | 222,324 | 48,204 | (104) | 270,424 |
| Non-current liabilities | | | | | | | |
| Interest-bearing loans | 73,503 | - | 73,503 | 207,217 | - | - | 207,217 |
| Obligations under finance lease | 384 | - | 384 | 4,955 | - | - | 4,955 |
| Deferred tax liabilities | 2,660 | (1,186) | 1,474 | 1,689 | (507) | - | 1,182 |
| Retirement benefits obligations | - | - | - | 438 | - | - | 438 |
| Total non-current liabilities | 76,547 | (1,186) | 75,361 | 214,299 | (507) | - | 213,792 |
| Net assets | 161,505 | (2,711) | 158,794 | 175,455 | (5,763) | - | 169,692 |
| Equity | | | | | | | |
| Share capital | 109,250 | - | 109,250 | 109,250 | - | - | 109,250 |
| Retained earnings | 12,901 | (2,711) | 10,190 | 26,723 | (5,763) | - | 20,960 |
| Revaluation reserve | 28,865 | - | 28,865 | 28,817 | - | - | 28,817 |
| Other reserves | 10,489 | - | 10,489 | 10,665 | - | - | 10,665 |
| Total equity | 161,505 | (2,711) | 158,794 | 175,455 | (5,763) | - | 169,692 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

42. Errors in prior reporting periods (continued)

42.1. Accounting error in calculation of income remuneration

During the period from 2004 to 2006, the Group recognized income from remuneration, respectively trade receivables under a signed contract for delivery of fuel, dated July 27, 2001 with Lukoil Bulgaria EOOD (the Counterparty) at the total amount of BGN 101,285 thousand. Due to the occurred disagreement with the Counterparty, regarding the method of calculation of part of the accrued remuneration for the period from 2004 to 2005, as of December 31, 2004 and 2005 an impairment of the disputed receivables is recognized at the total amount of BGN 25,830 thousand. On account of profound disagreement with the Counterparty and the vague possibility for future economic benefits, and taking into account criteria for revenue recognition of IAS 18 Revenue, effective January 1, 2006 the Group suspends the inclusion of this income in the consolidated financial statements, and currently reports its claims off-balance sheet. Simultaneously, the amount of the accrued claims is deducted from the current payments to the Counterparty. As a result of the accumulation of considerable outstanding amounts and after the depletion of the possibilities for their settlement in the course of normal trade negotiations, during the first half of 2007 the Group and the Counterparty prosecute cross-action claims before Sofia City Court, where they state their claims.

In addition, in 2005 the Group recognized income from remuneration under a signed contract for storage of fuel with the Counterparty at the amount of BGN 16,744 thousand. The Counterparty has argued the method of calculation and refuses to pay part of the remuneration, amounting to BGN 8,068 thousand. As of December 31, 2005 part of the receivable at the amount of BGN 7,909 thousand is presented net with the liabilities to the Counterparty in compliance with the adopted policy.

At the beginning of 2008, the parties held new negotiations, as a result of which on March 12, 2008 an out-of-court agreement was signed, by virtue of which the initiated proceedings and the Contract were abolished, effective January 1, 2008 (see also note 45.1.). In the course of negotiations the Group accepts that it has incorrectly estimated the amount of the claimed remuneration under the two contracts described above and on basis of the issued in March 2008 credit notes the Group retrospectively corrects the amount of the accrued income for previous reporting periods and the accrued impairment on receivables, respectively. The effects from the corrections are reported retrospectively in the current period as errors from prior reporting periods and as a result from these corrections the Group has decreased the accumulated profit as of the end of 2005 by BGN 2,711 thousand, increased trade and other receivables by BGN 5,292 thousand, increased trade and other payables by BGN 14,005 thousand, decreased current income tax liabilities by BGN 4,816 thousand and has accrued deferred tax assets at the amount of BGN 1,186 thousand. The effects from corrections for 2006 arise as a result of a decrease in the income generated from sales by BGN 3,291 thousand, a decrease in the current tax expense by BGN 918 thousand and change in the deferred tax income by BGN 679 thousand as a result of carry forward of and change in tax rate of the tax asset, formed in prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

42.2. Accounting error in presenting income generated from sales of goods

After the accession of the Republic of Bulgaria as a full member of the European Union (EU), effective January 1, 2007, in Bulgaria are adopted and ratified all European directives and regulations, including those which concern accounting and the preparation of financial statements. Such a regulation is the Fourth directive, in compliance with which the net income should include the amounts of products and services provided, which are a result of the ordinary activities, after the deduction of discounts, value added tax and other taxes, related directly to the income. According to the interpretations of the Fourth and the Seventh directives of the Council of the EU, the due excise is not included in the other taxes, related directly to the income, since it is paid only once – when the goods leave the warehouse of the producer or the trader unlike the VAT. In view of these officially published guidelines, the Group's management considers that income generated from sales and the carrying amount of the goods, realized by the licensed tax storage facility, should be presented grossly with the due excise (similar to the income, realized by unlicensed storage facilities) and that there is a presentation error in the consolidated financial statements for the prior period. The error at the amount of BGN 58,490 thousand has been adjusted in the current period retrospectively by restatement of the comparative information.

42.3. Presentation error regarding trade receivables and payables

Due to a clerical mistake, trade and other receivables and trade and other payables in the balance sheet as of December 31, 2006 have been understated by BGN 25,830 thousand. The presentation error has been corrected in the current reporting period retrospectively and the comparative information has been amended, in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

43. Contingent assets and contingent liabilities

43.1 Contingent assets

Bank guarantees amounting to BGN 2,230 thousand, promissory notes amounting to BGN 3,270 thousand issued in favour of the Group and a registered mortgage amounting to BGN 1,200 thousand serve as collateral of receivables from customers on rescheduled payments.

In 2006 the Group currently invoiced and recorded income from penalties at the amount of BGN 8,196 thousand accrued on a counterparty due to quantity non-performance of a fuel delivery contract. As of December 31, 2006 this income was reversed as the Management considered the criteria for income recognition in accordance with IAS 18 Income were not met. Hence, a contingent asset of BGN 8,196 thousand occurred for the Group as the receivable from the counterparty is not recognized in the financial statements and the management believes it has sound legal reasons to claim for it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

43. Contingent assets and contingent liabilities (continued)

43.2 Contingent liabilities

As of December 31, 2007 the Group has contingent liabilities on issued bank guarantees related to public tenders at the amount of BGN 1,155 thousand, availed promissory notes issued in favour of third parties under engagements of related parties at the amount of BGN 8,277 thousand, guarantees granted and issued corporate guarantees serve as collateral of bank loan agreements of related parties at the amount of BGN 18,097 thousand, as well as on bank guarantees issued to the Customs Agency for rescheduled payments of excise duty of BGN 2,364 thousand and for collateral of customs duty payables upon import of fuels at the amount of BGN 5,250 thousand.

Assets with carrying amount of BGN 112,291 have been mortgaged and pledged as a collateral on bank and trade loans granted to the Controlling company (see also notes 17, 23 and 24).

44. Environment

In relation to the privatization of the Parent company in 1999 for most of the company's sites (fuel storage facilities and fuel facilities) reports for valuation of the influence on the environment are prepared and approved by a council of experts with the Ministry of Environment and Waters (MoEW). Based on these reports Permissions for Exploitation of MoEW are issued. After the privatization the Parent company undertakes a large-scale investment programme aiming to set its sites in compliance with the best European practices. Hence, the sites are reconstructed in compliance with Directive 94/63/EU, which has been transferred to the Bulgarian legislation by means of Regulation No 16 of August 12, 1999 (the Regulation) on the control of volatile organic compound emissions resulting from the storage, loading or unloading and transportation of petrol, issued based on Art. 9, para 1 of the Clean Air Act. The reconstruction of the gas stations is preceded by environmental characteristics for each investment offer. The reconstruction of the gas stations is preceded by environmental characteristics for each investment offer. These characteristics are presented to the Regional Inspections of Environment and Waters (RIEW) for construction permission.

During the period 2008 – 2009, depending on the technological characteristics and by observing the requirements of the Regulation, 74 fuel stations and 9 fuel storage facilities will be set in compliance with the respective standards. The approximate estimation of the management of the total value of the reconstructions for the whole period amounts to BGN 7,122 thousand.

The actual amount and the time for performing the reconstruction may significantly differ from the above mentioned approximate estimations.

As of the date of these consolidated financial statements there is no obligating event under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, related to the commitment of the Group for environment protection, according to the current legislation in Bulgaria, and therefore no provisions have been accrued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2007

45. Post balance sheet events

45.1. Out-of-court agreement

On March 12, 2008 an out-of-court agreement was signed (the Agreement) with Lukoil Bulgaria EOOD. By signing this document, the parties agree to settle by mutual acceptable way all its legal relationships, arising from the contract for sale of fuels, concluded between them on July 27, 2001, and all its other relationships, existing as of the effective date of the Agreement. On the grounds of the achieved agreements, the parties have taken legal actions, by which a complete, unconditional and unrevokable remission of a claim was performed on the prosecuted by them cross-action legal claim procedures before Sofia City Court, without mutual claims for expenses, as they have disclaimed also from contests made in the course of the procedures and the prosecuted adverse claims. Immediately after the performance of the contests, the parties have simultaneously undertaken and performed all necessary legal and factual actions for the termination of the court proceedings.

Together with the remission of the above mentioned legal claims, the parties agree to terminate the operation of the Contract, effective January 1, 2008, by signing an express annex on the same date. In pursuance of the agreed with the annex additional clauses, in March 2008 the Group issued credit notes for adjustment to the amount of the consideration, owed by the Counterparty under the Contracts for delivery and storage of fuel. Additionally, in the annex the amount of Group's liabilities to the Counterparty is determined. The Group has classified the above subsequent event as adjusting event and has dealt with its effects in accordance with the requirements of IAS 10 Post balance sheet events by recording the errors as restatement of the prior period financial statements.

45.2. Asset disposal

As an integral part of the signed agreement on March 12, 2008, the Group is obliged to sell to the Counterparty 75 of its own fuel stations and one fuel storage facility, including real estate and equipment, at the price of BGN 305,305 thousand (EUR 156,100 thousand) and BGN 158,227 thousand (EUR 80,900 thousand). The carrying amount of the non-current assets, subject to sale, as of December 31, 2007 is BGN 55,207 thousand. The contract for sale of the fuel facility was signed in April 2008. As of the date on which these consolidated financial statements were authorized for issue, the sale of the fuel stations has not been completed yet as the final contracts transferring the ownership on land and buildings have not been signed.

**INDEPENDENT AUDITOR'S REPORT
ON SEPARATE FINANCIAL STATEMENTS**

**SEPARATE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007**

SEPARATE INCOME STATEMENT
For the year ended December 31, 2007

| | <i>Notes №</i> | December 31 2007 BGN'000 | December 31 2006 BGN'000 restated |
|---|--------------------|---|--|
| Revenue | 5 | 785,935 | 646,586 |
| Other income | 6 | 6,927 | 4,543 |
| Cost of goods sold | 7 | (707,750) | (564,587) |
| Materials | 8 | (6,176) | (6,844) |
| Hired services | 9 | (30,293) | (25,120) |
| Employee benefits expenses | 10 | (21,078) | (21,118) |
| Depreciation and amortization expenses | 11 | (11,792) | (13,750) |
| Other expenses | 12 | (13,008) | (3,700) |
| Finance income | 13 | 23,428 | 9,051 |
| Finance costs | 13 | <u>(51,410)</u> | <u>(8,109)</u> |
| Profit (loss) before taxation | | (25,217) | 16,952 |
| Income tax benefit (expense) | 14 | <u>2,134</u> | <u>(2,897)</u> |
| Net profit (loss) for the period | | <u>(23,083)</u> | <u>14,055</u> |
| Earnings (loss) per share | 30 | <u>(0.21)</u> | <u>0.13</u> |

These separate financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
Executive Director

Desislava Todorova
Chief Accountant

May 20, 2008

Sylvia Peneva
Registered Certified Public Accountant
May 30, 2008

(The accompanying notes from page 121 to page 159 are an integral part of these separate financial statements)

SEPARATE BALANCE SHEET
As of December 31, 2007

| | <i>Notes №</i> | December 31 2007 BGN'000 | December 31 2006 BGN'000 restated |
|--------------------------------------|--------------------|---|--|
| Non-current assets | | | |
| Property, plant and equipment | 15 | 153,652 | 132,268 |
| Intangible assets | 16 | 942 | 1,130 |
| Investments in subsidiaries | 17 | 69,813 | 120,521 |
| Investments in associates | 18 | - | 2,855 |
| Interest-bearing loans granted | 20 | <u>156,020</u> | <u>146,807</u> |
| Total non-current assets | | <u>380,427</u> | <u>403,581</u> |
| Current assets | | | |
| Inventories | 19 | 21,998 | 28,704 |
| Interest-bearing loans granted | 20 | 10,215 | 4,926 |
| Trade and other receivables, net | 21 | 85,041 | 60,734 |
| Current income tax receivables | 22 | 6,571 | 5,721 |
| Cash and cash equivalents | 23 | <u>12,356</u> | <u>9,249</u> |
| Total current assets | | <u>136,181</u> | <u>109,334</u> |
| Total assets | | <u>516,608</u> | <u>512,915</u> |
| Current liabilities | | | |
| Trade and other payables, net | 24 | 152,675 | 114,143 |
| Interest-bearing loans | 25 | 19,290 | 5,348 |
| Obligation under finance lease | 26 | 161 | 222 |
| Retirement benefits obligations | 27 | <u>42</u> | <u>32</u> |
| Total current liabilities | | <u>172,168</u> | <u>119,745</u> |
| Net current assets | | <u>(35,987)</u> | <u>(10,411)</u> |
| Non-current liabilities | | | |
| Interest-bearing loans | 25 | 192,302 | 207,217 |
| Obligation under finance lease | 26 | - | 149 |
| Retirement benefits obligations | 27 | 416 | 438 |
| Deferred tax liabilities | 14 | <u>89</u> | <u>2,223</u> |
| Total non-current liabilities | | <u>192,807</u> | <u>210,027</u> |
| Net assets | | <u>151,633</u> | <u>183,143</u> |

SEPARATE BALANCE SHEET
As of December 31, 2007 (continued)

| | <i>Notes №</i> | December 31 2007 BGN'000 | December 31 2006 BGN'000 restated |
|----------------------------------|--------------------|---|--|
| Equity and reserves | | | |
| Share capital | 28 | 109,250 | 109,250 |
| Revaluation reserve | 29 | 28,137 | 28,817 |
| Other reserves | | 18,696 | 10,598 |
| Retained earnings (loss) | | <u>(4,450)</u> | <u>34,478</u> |
| Total equity and reserves | | <u>151,633</u> | <u>183,143</u> |

These separate financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
Executive Director

Desislava Todorova
Chief Accountant

May 20, 2008

Sylvia Peneva
Registered Certified Public Accountant
May 30, 2008

(The accompanying notes from page 121 to page 159 are an integral part of these separate financial statements)

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended December 31, 2007

| | Share capital | Revaluation reserve | Other reserves | Retained earnings (loss) | Total |
|---|------------------|------------------------|-------------------|--------------------------------|----------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Balance at December 31, 2005 | 109,250 | 28,865 | 10,453 | 15,641 | 164,209 |
| Prior period errors | - | - | - | 4,006 | 4,006 |
| Balance at December 31, 2005, restated | 109,250 | 28,865 | 10,453 | 19,647 | 168,215 |
| Revaluation reserve of disposed non- current assets | - | (1,648) | - | 1,648 | - |
| Deferred tax on the written off revaluation reserve | - | 1,600 | - | - | 1,600 |
| <i>Net income, recognized directly in equity</i> | - | (48) | - | 1,648 | 1,600 |
| Profit for the period (restated) | - | - | - | 14,055 | 14,055 |
| <i>Total income/expense recognized for the period</i> | - | (48) | - | 15,703 | 15,655 |
| Allocation of profit to the reserves | - | - | 145 | (145) | - |
| Dividends | - | - | - | (727) | (727) |
| Balance at December 31, 2006 | 109,250 | 28,817 | 10,598 | 34,478 | 183,143 |
| Revaluation reserve of disposed non- current assets | - | (680) | - | 680 | - |
| <i>Net income, recognized directly in equity</i> | - | (680) | - | 680 | - |
| Loss for the period | - | - | - | (23,083) | (23,083) |
| <i>Total income/expense recognized for the period</i> | - | (680) | - | (22,403) | (23,083) |
| Allocation of profit to the reserves | - | - | 8,098 | (8,098) | - |
| Dividends | - | - | - | (8,427) | (8,427) |
| Balance at December 31, 2007 | 109,250 | 28,137 | 18,696 | (4,450) | 151,633 |

These separate financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
Executive Director

Desislava Todorova
Chief Accountant

May 20, 2008

Sylvia Peneva
Registered Certified Public Accountant
May 30, 2008

(The accompanying notes from page 121 to page 159 are an integral part of these separate financial statements)

SEPARATE CASH FLOW STATEMENT
For the year ended December 31, 2007

| | December 31 2007 BGN'000 | December 31 2006 BGN'000 |
|---|--------------------------------|--------------------------------|
| Cash flows from operating activities | | |
| Proceeds from clients and other parties | 936,245 | 780,564 |
| Payments to suppliers and other parties | (881,200) | (715,829) |
| Payments to employees | <u>(19,633)</u> | <u>(20,197)</u> |
| Cash provided by operations | 35,412 | 44,538 |
| Income tax paid | <u>(850)</u> | <u>(7,333)</u> |
| Net cash provided by operating activities | 34,562 | 37,205 |
| Cash flows from investing activities | | |
| Payments for acquisition of investments in subsidiaries | (455) | (32) |
| Proceeds from disposal of investments in subsidiaries | 30,700 | - |
| Proceeds from disposal of investments in associates | 1,452 | - |
| Payments for acquisition of property, plant and equipment and intangible assets | (31,512) | (11,758) |
| Proceeds on disposal of property, plant and equipment and intangible assets | 1,209 | 4,558 |
| Interest loans granted | (14,505) | (140,193) |
| Interest received | 8,706 | 1,844 |
| Dividends received | <u>1,017</u> | <u>670</u> |
| Net cash used in investing activities | (3,388) | (144,911) |
| Cash flows from in financing activities | | |
| Proceeds from borrowings | 450 | 242,679 |
| Repayments of borrowings | (2,513) | (126,451) |
| Interest and commissions paid | (17,803) | (5,340) |
| Dividends and taxes paid | (8,439) | (699) |
| Dividend paid back | 449 | - |
| Lease payments | <u>(210)</u> | <u>(105)</u> |
| Net cash provided by/(used in) financing activities | (28,066) | 110,084 |
| Net increase in cash during the period | 3,108 | 2,378 |
| Cash at the beginning of period | 9,249 | 6,888 |
| Effect of foreign exchange rate changes | <u>(1)</u> | <u>(17)</u> |
| Cash at the end of period (see also note 23) | <u>12,356</u> | <u>9,249</u> |

These separate financial statements have been approved on behalf of Petrol AD by:

Svetoslav Yordanov
Executive Director

May 20, 2008

Desislava Todorova
Chief Accountant

Sylvia Peneva
Registered Certified Public Accountant
May 30, 2008

(The accompanying notes from page 121 to page 159 are an integral part of these separate financial statements)

**NOTES
TO THE SEPARATE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2007**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***1. Legal status**

Petrol AD (the Company) is registered in Sofia. The Company's headquarters are located at 43 Cherni Vruh Blvd. Sofia. As of December 31, 2007 the majority shareholder of Petrol AD is Petrol Holding AD with 69.10% ownership of the share capital. The remaining part of the Company's share capital is owned by other legal entities, the state – through the Ministry of Economy and individual shareholders (see note 28).

The main activity of the Company comprises retail of oil products and non-oil products and services.

These separate financial statements were approved for issue by the management on May 20, 2008.

2. Basis for preparation of the separate financial statements and accounting principles**2.1. General**

The Company prepares and presents its separate financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union Commission (the Commission) and applicable in the Republic of Bulgaria. IFRS as adopted by the Commission do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of December 31, 2007, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the Commission. The management believes that if the hedge requirements have been approved by the Commission it would have no influence on these separate financial statements.

During 2007 the Company has adopted all new and revised IFRS by IASB, as approved by the Commission, effective for 2007, which refer to the Company's business, i.e. IFRS 7 Financial Instruments: Disclosure and amendments of IAS 1 Presentation of Financial Statements – equity disclosures. These amendments refer only to the inclusion of additional disclosures on financial instruments without having an effect on classifications and measurement of the assets and liabilities and the financial result of the Company.

These financial statements have been prepared under the historical cost convention and present separate financial statements which have been prepared in accordance with accounting and tax legislation of the Republic of Bulgaria.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

2.2. Functional currency and presentation currency of the separate financial statements

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

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

These separate financial statements are presented in thousand Bulgarian Levs.

2.3. Foreign currency

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

The monetary positions denominated in foreign currency as of December 31, 2007 and 2006 are stated in these separate financial statements at the closing exchange rate of BNB. The closing exchange rates of BGN against USD as of the respective reporting periods are as follows:

| | |
|-------------------|---------------------|
| December 31, 2007 | 1 USD = BGN 1.33122 |
| December 31, 2006 | 1 USD = BGN 1.48506 |

2.4. Accounting estimates and reasonable assumptions

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

2.5. Subsidiary companies

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

2.6. Associates

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

2.6. Errors from prior periods

Prior period errors represent misstatement of the Company's separate financial statements for prior periods occurred as a result of reliable information omitted or used incorrectly. This is information, which was available at the date of approval of the separate financial statements or information which is expected to be received and used upon preparation of the separate financial statements. Prior year errors may occur at recognition, measurement, presentation or disclosure of items of the separate financial statements. They are corrected by retrospective restatement of comparative data or the opening balances of assets, liabilities and equity (if they occurred in prior periods for which no data in the separate financial statements is presented). Corrections are recognized in the first set of separate financial statements authorized for issue after their discovery.

3. Definition and valuation of the balance sheet and income statement items

3.1. Property, plant and equipment and intangible assets

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

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

Subsequent costs, including costs for replacement of items of property, plant and equipment are capitalized in the amount of the asset, if they satisfy the recognition principle. The carrying amount of the replaced item is derecognized in accordance with the requirements of IAS 16 Property, Plant and Equipment. All other subsequent costs are recognized as expense for the period as incurred.

Depreciation and amortization are charged over the estimated useful lives, using the straight-line method. Depreciation and amortization is recorded in the income statement for the current period.

The assets' estimated useful lives are as follows:

| Useful life | 2007 | 2006 |
|------------------------------------|------------|------------|
| Administrative and trade buildings | 25 years | 25 years |
| Property, plant and equipment | 2–25 years | 2–25 years |
| Other vehicles | 5-10 years | 5-10 years |
| Office equipment | 7 years | 7 years |
| Intangible assets | 2-7 years | 2-7 years |

Depreciation of an asset begins in the month following the month in which it is available for use and ceases at the earlier of the date that the asset is classified as held for sale, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and the date that the asset is derecognized. Land, assets under construction and fully depreciated assets are not depreciated.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***3.2. Impairment of property, plant and equipment and intangible assets**

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the income statement. If an asset is carried at a revalued amount, the reversal of the impairment loss is treated as an increase in the revaluation reserve, unless such loss has not been recognized initially in the income statement. In such case the reversal of the impairment loss is recognized through profit and loss only to the extent to which it is stated in a prior reporting period.

3.3. Inventories

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

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

| | |
|---------------------------|-------------------------|
| Fuel | - Weighted average cost |
| Other goods and materials | - Weighted average cost |

3.4. Financial instruments

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***3.4. Financial instruments (continued)**

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

For the purposes of subsequent measurement, in accordance with the requirements of IAS 39 Financial Instruments: Recognition and Measurement, the Company classifies the financial assets as loans granted and receivables and financial assets available for sale and the financial liabilities as financial liabilities at amortized cost. The Company does not apply this classification of the assets and liabilities for the purpose of presentation in the balance sheet.

3.4.1. Loans granted and receivables

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

Receivables on interest-bearing loans, trade and other receivables

After initial recognition, trade receivables and receivables on interest bearing loans are measured at amortized cost by using the effective interest rate method, less impairment loss, if any. Current receivables are not subject to amortization. Impairment loss is accrued if any objective evidence exists, such as significant financial difficulties of the borrower, probability the borrower to be entered into liquidation and other (see also note 3.4.3).

Cash

For the purposes of the cash flow statement preparation, cash comprise cash in hand and cash at banks. Cash in transfer represents cash collected at the petrol stations on the balance sheet date, but actually received in the beginning of the next reporting period.

3.4.2. Financial assets available for sale

Financial assets available for sale are non-derivative financial instruments that are not classified as financial assets, reported at fair value in the income statement, investments held to maturity or granted loans and receivables. They are presented in the Company's balance sheet as long-term investments and include investments in subsidiaries and associates.

In accordance with the requirements of IAS 27 Consolidated and Separate Financial Statements and IAS 28 Accounting for Investments in Associates, the Company has decided to account for its investments in subsidiaries and associates by applying IAS 39 Financial Instruments: Recognition and Measurement.

The fair value of the assets, for which quotation on an active market exists, is determined on the basis of the quotes valid as of the date of the separate financial statements preparation. The financial assets for which no quotation on active market exists and with fair value that cannot be reliably determined, are reported after initial recognition at acquisition cost less impairment loss, if any (see also note 3.4.3).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***3.4.3. Impairment of financial assets**

As of the date of the separate financial statements preparation, the Company management reviews whether there is any indication for impairment of all financial assets, except for financial assets carried at fair value through profit or loss. Financial assets are impaired only when there is any objective evidence that as a result of one or more events occurred after their initial recognition, the expected cash flows has declined.

If any such evidence exists regarding assets carried at cost, the impairment loss is determined as a difference between the carrying amount and the present value of expected future cash flows discounted by the present market interest rate for similar assets.

Impairment loss on receivables and granted loans stated at amortized cost is calculated as a difference between the carrying amount and the present value of future cash flows, discounted by the initial effective interest rate. Impairment loss is recognized in the income statement and is reversed if the subsequent increase of recovery amount objectively maybe tied to an event after the date on which the impairment has been recognized.

3.4.4. Financial liabilities at amortized cost

After their initial recognition, the Company measures all financial liabilities at amortized cost except for the financial liabilities, reported at their fair value through profit or loss; financial liabilities, that arise when the transfer of an asset does not meet the derecognition requirements; contracts for finance guarantee, arrangements for granting credit with interest rate lower than the market interest rate. These liabilities are presented in the Company's balance sheet as trade and other payables and payables on loans.

Trade and other payable

Trade and other payables incur as a result from purchased goods or services. Current liabilities are not amortized.

Interest bearing loans

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

Financial expenses, including direct issue costs, are accounted for on accrual basis to the profit and loss account using the effective interest rate method, except for transaction costs on bank overdrafts, which are recognized in the income statement on a straight line basis for the overdraft period.

Interest bearing loans are classified as short-term when they are expected to be settled within twelve months from the balance sheet date.

3.4.5. Share capital

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***3.5. Retirement benefits to employees**

The Government of the Republic of Bulgaria is to provide pensions according to defined retirement benefits schemes. Costs related to payment of contributions under these schemes are recognized by the Company in the income statement in the period they occur.

In accordance with the Labour Code, the Company has an obligation to pay retirement benefits to its employees, based on length of service, age and labour category. In accordance with the requirements of IAS 19 Employee benefits and its provisions, the Company recognizes the present amount of the benefits as a liability. All actuarial gains and losses and past service cost is recognized immediately in the income statement.

3.6. Income tax

Income tax expense comprises of current income tax and deferred tax.

The current income tax is based on taxable profit for the year by applying the effective tax rate according to the tax legislation as of the date of the separate 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 or 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 recognized for all taxable temporary differences, whereas deferred tax assets are recognized 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 utilized.

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 realized, based on the information available to the Company as of the date of these separate financial statements. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also accounted directly in equity, without being recognized in the income statement.

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

In accordance with the tax legislation enforceable for the years ended 2007 and 2006, the tax rates applied for the calculation of current tax liabilities of the Company is 10% and 15%, respectively. For the calculation of the deferred tax assets and liabilities as of December 31, 2007 and 2006, the Company has used a tax rate of 10%.

3.7. Revenue and expenses recognition

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

Revenue is recognized at the fair value of the consideration received or expected to be received, less any discounts allowed and includes the economic benefits received by or due to the Company. The amounts collected on behalf of third parties such as sales taxes, value added tax, are excluded from the revenue.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

3.7. Revenue and expenses recognition (continued)

Revenue from sales of goods is recognized when:

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

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

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

Interest income (expense) is accrued based on the effective interest rate.

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

Income from investments is recognized only when the right of the Company to receive the income is established.

3.8. Leasing

Finance lease is a lease agreement which substantially transfers all risks and rewards incidental to the ownership of an asset.

Assets acquired under finance lease are recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments, determined at the inception of the lease. Initial direct costs incurred in favour of the lessee are included in the carrying amount of the asset. The corresponding liability to the lessor is included in the Company's balance sheet as obligations under finance leases.

Lease payments are divided in interest payments and payments on principal so that a constant interest rate of the residual lease liability is obtained.

Finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each reporting period. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

For the purpose of presenting the financial instruments in categories, defined in accordance with IAS 39 Financial Instruments: Recognition and measurement, liabilities under finance lease are classified as financial liabilities at amortized cost.

Expenses related to contracts for operating lease agreements are recognized in the income statement on a straight-line basis over the lease term.

Revenue generated from assets, leased out under operating lease agreements, is recognized in the income statement on a straight-line basis over the lease term. Initial costs, directly related to the signing of the lease agreement, are capitalized in the cost of the asset and are recognized as expense on a straight-line basis for the term of the lease agreement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

4. Changes in IFRS

The stated below IFRS, IFRS revisions, and IFRIC, have been approved by IASB and IFRIC as of the date of the separate financial statements, but are effective for annual periods beginning on or after March 1, 2007.

| IFRS or IFRIC, effective date | Title of IFRS or IFRIC |
|--|---|
| IFRS 3, effective for annual periods beginning on or after July 1, 2009 | Business Combinations |
| IFRS 8, effective for annual periods beginning on or after January 1, 2009 | Operating Segments |
| IFRIC 11, effective for annual periods beginning on or after March 1, 2007 | IFRS 2: Group and Treasury Transactions |
| IFRIC 12, effective for annual periods beginning on or after January 1, 2008 | Service Concession Arrangements |
| IFRIC 13, effective for annual periods beginning on or after July 1, 2008 | Customer Loyalty Programmes |
| IFRIC 14, effective for annual periods beginning on or after January 1, 2008 | IAS 19: The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction |
| IAS 23 (amended) effective for periods beginning on or after January 1, 2009 | Borrowing Costs |
| IAS 1 (amended) effective for annual periods beginning on or after January 1, 2009 | Presentation of Financial Statements |
| IAS 27 (amended) effective for periods beginning on or after July 1, 2009 | Consolidated and Separate Financial Statements |
| IAS 28 (amended) effective for periods beginning on or after July 1, 2009 | Investments in Associates |
| IAS 31 (amended) effective for periods beginning on or after July 1, 2009 | Interests in Joint Ventures |
| IAS 32 (amended) effective for periods beginning on or after January 1, 2009 | Financial Instruments: Presentation |
| IFRS 2 (amended) effective for periods beginning on or after January 1, 2009 | Share-based Payment: terms and conditions for acquisition of rights and cancellations |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

4. Changes in IFRS (continued)

IFRIC 12 Service Concession Arrangements and IAS 23 (amended) Borrowing Costs have been suggested but not endorsed by the European Union Commission as of the date on which the present separate financial statements have been authorized for issue. As of this date, IFRS 8 Operating Segments and IFRIC 11 IFRS 2: Group and Treasury Share Transactions have been approved for issue by the European Union Commission. No suggestions for endorsement of the rest of the above mentioned standards and interpretations have been made.

Most of the IFRS and IFRIC stated above are not applicable to the Company's activity. Therefore, they will have no material effect on the separate financial statements. The application of IAS 1 (amended) Presentation of Financial Statements will lead to change in the titles and presentation in the separate financial statement – mostly in the income statement and the statement of changes in shareholder's equity. The adoption of IAS 23 (amended) Borrowing Costs will have effect on the recognition of interest expenses as the expenses relating to the acquisition or construction of an asset will be capitalized in its cost.

5. Revenue

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|-------------------------|--|---|
| Sales of goods | 744,985 | 608,920 |
| Sales of services | 40,745 | 35,185 |
| Sales of finished goods | <u>205</u> | <u>2,481</u> |
| Total | <u>785,935</u> | <u>646,586</u> |

Revenue from sales of goods consists of:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|----------------------------|--|---|
| Light fuels | 704,355 | 576,714 |
| Lubricants and other goods | 40,423 | 31,867 |
| Heavy fuels | <u>207</u> | <u>339</u> |
| Total | <u>744,985</u> | <u>608,920</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

6. Other income

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|---------------------------------|---------------------------------|
| Liabilities written-off | 4,800 | - |
| Surplus of assets | 595 | 580 |
| Gain from sales of non-current assets and materials, including: | 580 | 3,326 |
| <i>Revenue from sales of non-current asset and materials</i> | <i>1,395</i> | <i>5,054</i> |
| <i>Carrying amount of non-current assets written-off</i> | <i>(815)</i> | <i>(1,728)</i> |
| Insurance claims | 160 | 208 |
| Income from penalties | 85 | 174 |
| Other | <u>707</u> | <u>255</u> |
| Total | <u>6,927</u> | <u>4,543</u> |

The liabilities written-off are a result of adjustments made to the amount of trade payables to a Counterparty on the basis of a signed annex, which settles the balances with regard to a terminated contract for delivery of fuel as of December 31, 2007 (see also note 37.1.).

7. Cost of goods sold

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|----------------------------|---------------------------------|---------------------------------|
| Light fuels | 672,722 | 535,178 |
| Lubricants and other goods | 34,827 | 29,009 |
| Heavy fuels | <u>201</u> | <u>400</u> |
| Total | <u>707,750</u> | <u>564,587</u> |

8. Materials

Materials and consumables consist of:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|-------------------------|---------------------------------|---------------------------------|
| Electricity and heating | 2,681 | 2,401 |
| Advertising materials | 1,060 | 1,878 |
| Office consumables | 1,001 | 1,164 |
| Fuels | 521 | 146 |
| Working clothes | 337 | 432 |
| Water supply | 202 | 575 |
| Spare parts | 142 | 20 |
| Others | <u>232</u> | <u>228</u> |
| Total | <u>6,176</u> | <u>6,844</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

9. Hired services

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|-----------------------------|--|--|
| Fees, taxes and commissions | 8,157 | 3,418 |
| Maintenance and repairs | 6,640 | 8,175 |
| Advertisement costs | 3,483 | 3,615 |
| Rents | 2,614 | 1,245 |
| Consulting and training | 2,455 | 1,734 |
| Communications | 1,475 | 1,548 |
| Insurances | 1,431 | 215 |
| Cash collection expenses | 1,402 | 1,713 |
| Security | 672 | 691 |
| Quality control | 425 | 372 |
| Transportation | 96 | 1,596 |
| Others | <u>1,443</u> | <u>798</u> |
| Total | <u>30,293</u> | <u>25,120</u> |

10. Employee benefits expenses

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|--|--|
| Wages and salaries | 16,695 | 16,072 |
| Social security contributions and benefits | 4,325 | 4,576 |
| Employees retirement benefits | <u>58</u> | <u>470</u> |
| Total | <u>21,078</u> | <u>21,118</u> |

11. Depreciation and amortization expenses

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|--|--|
| Depreciation of property, plant and equipment | 11,517 | 13,021 |
| Amortisation of intangible assets | 275 | 453 |
| Depreciation of investment properties | <u>-</u> | <u>276</u> |
| Total | <u>11,792</u> | <u>13,750</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

12. Other expenses

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|--|--|
| Impairment loss on receivables | 4,723 | - |
| Entertainment expenses and sponsorship | 2,058 | 814 |
| Shortages of assets | 2,801 | 471 |
| Taxes and tax charges | 1,429 | 899 |
| Obsolete inventories and non-current assets | 848 | 281 |
| Penalties and indemnities | 426 | 224 |
| Business trips | 259 | 525 |
| Others | <u>464</u> | <u>486</u> |
| Total | <u>13,008</u> | <u>3,700</u> |

The impairment loss on receivables arise as a result of provision for impairment related to expenses incurred (state and lawyers' fees) under a litigation with a Counterparty (see also note 37.1.).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

13. Finance income and finance cost

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|---------------------------------|---------------------------------|
| <i>Finance income</i> | | |
| Interest income on interest-bearing loans granted | 11,823 | 3,376 |
| Interest income on trade and other receivables | 1,371 | - |
| Other interest income | 37 | 25 |
| Income from participations | 2,108 | 994 |
| Gains from dealings with financial assets, net | 8,067 | 4,656 |
| Foreign exchange rate gains, net | 20 | - |
| Others | <u>2</u> | <u>-</u> |
| <i>Total</i> | <u>23,428</u> | <u>9,051</u> |
| <i>Finance cost</i> | | |
| Interest expenses on bank loans received | (100) | (3,635) |
| Interest expenses on debenture loans | (20,393) | (4,254) |
| Interest expense on obligation under finance lease | (21) | (7) |
| Interest expense on trade loans received | (2) | - |
| Loss on dealing with financial assets including: | (30,573) | - |
| <i>Income from sales</i> | 32,152 | - |
| <i>Carrying amount</i> | (62,725) | - |
| Foreign exchange rate losses, net | - | (9) |
| Bank fees, commissions and other finance expenses | <u>(321)</u> | <u>(204)</u> |
| <i>Total</i> | <u>(51,410)</u> | <u>(8,109)</u> |

Gains on dealings with financial assets are formed as a difference between the fair value at the amount of BGN 8,707 thousand and the carrying amount of BGN 640 thousand of the assets contributed in-kind by the Company in May 2007 in NewCo Zagora EOOD (see note 17).

Loss from the sale of financial assets is the difference between the income and the carrying amount of the investments sold in the current year to the Ultimate controlling company. The selling price of the investments is determined on the basis of the fair value of the participation of the Company in the equity of the respective subsidiaries and associate companies in accordance with the assessment of licensed appraisers (see also note 17).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

14. Taxation

Tax expense in the income statement includes the amount of current and deferred income taxes in accordance with the requirements of IAS 12 Income Taxes.

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|---|---------------------------------|---|
| Current tax expense | - | 2,941 |
| Change in deferred taxes | (2,134) | (44) |
| <i>Temporary differences originated during the year</i> | (2,348) | (233) |
| <i>Reduction in the tax rate</i> | - | 372 |
| <i>Adjustments in the period</i> | 165 | - |
| <i>Temporary differences reversed during the year</i> | <u>49</u> | <u>(183)</u> |
| Total tax expense (income) in the income statement | <u>(2,134)</u> | <u>2,897</u> |

The reconciliation between accounting profit and benefit or tax expense, and the calculation of the effective tax rate as of December 31, 2007 and 2006 is presented in the table below:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|---|---------------------------------|---|
| Accounting profit (loss) | (25,217) | 16,952 |
| Applicable tax rate | 10% | 15% |
| Income tax (tax on loss) at the applicable tax rate | (2,522) | 2,543 |
| Tax effect on permanent differences | 223 | (55) |
| Tax effect incurred from the difference between the revaluation reserve written off in the tax depreciation plan and the accounting depreciation plan | 165 | (79) |
| Adjustment of opening balance of deferred tax assets as a result of a change in tax rate | - | 372 |
| Effect on application of different tax rates for Tax return and deferred tax calculation | <u>-</u> | <u>116</u> |
| Tax expense (income) | <u>(2,134)</u> | <u>2,897</u> |
| Effective tax rate | <u>-</u> | <u>17.09%</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

14. Taxation (continued)

The deferred tax liability, presented net in the balance sheet, arises as a result of the income tax charges on deductible temporary differences, the effect of which is as follows:

| | December 31, 2007 | | December 31, 2006 | |
|---|------------------------------------|--------------------------|------------------------------------|--------------------------|
| | Temporary difference BGN'000 | Tax effect BGN'000 | Temporary difference BGN'000 | Tax effect BGN'000 |
| Balance at the beginning of the period | | | | |
| Non-current assets | (25,736) | (2,574) | (28,612) | (4,292) |
| Liabilities related employee benefits | 1,687 | 169 | 969 | 145 |
| Impairment of assets | <u>1,815</u> | <u>182</u> | <u>1,863</u> | <u>280</u> |
| Total | <u>(22,234)</u> | <u>(2,223)</u> | <u>(25,780)</u> | <u>(3,867)</u> |
| Originated during the period | | | | |
| Non-current assets | - | - | 937 | 94 |
| Tax loss to be carried forward | 17,614 | 1,761 | - | - |
| Liabilities related employee benefits | 1,152 | 115 | 1,389 | 139 |
| Impairment of assets | <u>4,720</u> | <u>472</u> | <u>-</u> | <u>-</u> |
| Total | <u>23,486</u> | <u>2,348</u> | <u>2,326</u> | <u>233</u> |
| Reversed during the period | | | | |
| Non-current assets | 366 | 37 | 1,939 | 291 |
| Liabilities related employee benefits | (859) | (86) | (671) | (101) |
| Impairment of assets | <u>2</u> | <u>-</u> | <u>(48)</u> | <u>(7)</u> |
| Total | <u>(491)</u> | <u>(49)</u> | <u>1,220</u> | <u>183</u> |
| Adjustment in the period | | | | |
| Non-current assets | (1,653) | (165) | - | 1,333 |
| Liabilities related employee benefits | - | - | - | (14) |
| Impairment of assets | <u>-</u> | <u>-</u> | <u>-</u> | <u>(91)</u> |
| Total | <u>(1,653)</u> | <u>(165)</u> | <u>-</u> | <u>1,228</u> |
| Balance at the end of the period | | | | |
| Non-current assets | (27,023) | (2,702) | (25,736) | (2,574) |
| Tax loss to be carried forward | 17,614 | 1,761 | - | - |
| Liabilities related employee benefits | 1,980 | 198 | 1,687 | 169 |
| Impairment of assets | <u>6,537</u> | <u>654</u> | <u>1,815</u> | <u>182</u> |
| Total | <u>(892)</u> | <u>(89)</u> | <u>(22,234)</u> | <u>(2,223)</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

15. Property, plant and equipment

| | Land | Buildings | Plant and equipment | Vehicles | Other | Assets under construction | Total |
|---|----------------------|----------------------|----------------------|---------------------|----------------------|---------------------------|-----------------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| <i>Cost</i> | | | | | | | |
| Balance at January 1, 2006 | 30,392 | 36,464 | 108,675 | 10,619 | 20,485 | 2,113 | 208,748 |
| Additions | 17 | 21 | 385 | - | 204 | 9,901 | 10,528 |
| Transfers | - | 112 | 745 | - | 98 | (955) | - |
| Disposals | <u>(1,790)</u> | <u>(1,992)</u> | <u>(2,970)</u> | <u>(2,971)</u> | <u>(1,217)</u> | <u>(48)</u> | <u>(10,988)</u> |
| Balance at December 31, 2006 | 28,619 | 34,605 | 106,835 | 7,648 | 19,570 | 11,011 | 208,288 |
| Additions | 1,177 | - | 599 | 31 | 53 | 33,119 | 34,979 |
| Transfers | 259 | 7,791 | 22,746 | 10 | 1,766 | (32,574) | (2) |
| Disposals | <u>(495)</u> | <u>(1,447)</u> | <u>(6,949)</u> | <u>(154)</u> | <u>(97)</u> | <u>(84)</u> | <u>(9,226)</u> |
| Balance at December 31, 2007 | 29,560 | 40,949 | 123,231 | 7,535 | 21,292 | 11,472 | 234,039 |
| <i>Accumulated depreciation</i> | | | | | | | |
| Balance at January 1, 2006 | - | 15,798 | 39,177 | 5,420 | 9,440 | - | 69,835 |
| Charged for the period | - | 1,036 | 8,321 | 840 | 2,824 | - | 13,021 |
| Disposals for the period | <u>-</u> | <u>(630)</u> | <u>(2,688)</u> | <u>(2,329)</u> | <u>(1,189)</u> | <u>-</u> | <u>(6,836)</u> |
| Balance at December 31, 2006 | - | 16,204 | 44,810 | 3,931 | 11,075 | - | 76,020 |
| Charged for the period | - | 1,065 | 6,869 | 745 | 2,838 | - | 11,517 |
| Transfers | - | - | (4) | - | 4 | - | - |
| Disposals for the period | <u>-</u> | <u>(526)</u> | <u>(6,404)</u> | <u>(141)</u> | <u>(79)</u> | <u>-</u> | <u>(7,150)</u> |
| Balance at December 31, 2007 | - | 16,743 | 45,271 | 4,535 | 13,838 | - | 80,387 |
| Carrying amount at January 1, 2006 | <u>30,392</u> | <u>20,666</u> | <u>69,498</u> | <u>5,199</u> | <u>11,045</u> | <u>2,113</u> | <u>138,913</u> |
| Carrying amount at December 31, 2006 | <u>28,619</u> | <u>18,401</u> | <u>62,025</u> | <u>3,717</u> | <u>8,495</u> | <u>11,011</u> | <u>132,268</u> |
| Carrying amount at December 31, 2007 | <u>29,560</u> | <u>24,206</u> | <u>77,960</u> | <u>3,000</u> | <u>7,454</u> | <u>11,472</u> | <u>153,652</u> |

Assets under construction include mainly expenses related to the construction of petrol stations under the Universal program at the amount of BGN 25,316 thousand.

As of December 31, 2007 and 2006 land and buildings with carrying amount of BGN 19,115 thousand and BGN 20,281 thousand are mortgaged as collaterals under bank loans, extended to the Controlling company (see also note 35).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

16. Intangible assets

| | Software | Licenses | Other | Assets under construction | Total |
|---|-------------------|-------------------|-------------------|---------------------------|---------------------|
| | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| <i>Cost</i> | | | | | |
| Balance at January 1, 2006 | 863 | 1,008 | 323 | 52 | 2,246 |
| Additions | 82 | 10 | - | 170 | 262 |
| Transfers | 12 | - | - | (12) | - |
| Disposals | <u>(30)</u> | <u>(23)</u> | <u>(216)</u> | <u>-</u> | <u>(269)</u> |
| Balance at December 31, 2006 | 927 | 995 | 107 | 210 | 2,239 |
| Additions | - | - | - | 99 | 99 |
| Transfers | 2 | - | - | - | 2 |
| Disposals | <u>(18)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(18)</u> |
| Balance at December 31, 2007 | 911 | 995 | 107 | 309 | 2,322 |
| <i>Accumulated amortization</i> | | | | | |
| Balance at January 1, 2006 | 531 | 149 | 168 | - | 848 |
| Charged for the period | 282 | 147 | 24 | - | 453 |
| Disposals for the period | <u>(31)</u> | <u>(23)</u> | <u>(138)</u> | <u>-</u> | <u>(192)</u> |
| Balance at December 31, 2006 | 782 | 273 | 54 | - | 1,109 |
| Charged for the period | 111 | 148 | 16 | - | 275 |
| Disposals for the period | <u>(4)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(4)</u> |
| Balance at December 31, 2007 | 889 | 421 | 70 | - | 1,380 |
| Carrying amount at January 1, 2006 | <u>332</u> | <u>859</u> | <u>155</u> | <u>52</u> | <u>1,398</u> |
| Carrying amount at December 31, 2006 | <u>145</u> | <u>722</u> | <u>53</u> | <u>210</u> | <u>1,130</u> |
| Carrying amount at December 31, 2007 | <u>22</u> | <u>574</u> | <u>37</u> | <u>309</u> | <u>942</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

17. Investments in subsidiaries

| Investments in subsidiaries | Activity | December 31, 2007 | | December 31, 2006 | |
|---|---|----------------------|-----------------|-----------------------|-----------------|
| | | BGN'000 | % of capital | BGN'000 | % of capital |
| Naftex Petrol EOOD | Wholesale of fuels | 68,311 | 100.00 | 68,311 | 100.00 |
| Petrol Trans Express EOOD | Transport services | 996 | 100.00 | 996 | 100.00 |
| Petrol Technika EOOD | Service and maintenance of gas stations | 50 | 100.00 | 50 | 100.00 |
| Petrol Gas OOD | Wholesale of fuels | 451 | 90.00 | - | - |
| Petrol Properties EOOD | Real Estate and Moveable Property Trade | 5 | 100.00 | - | - |
| NewCo Zagora EOOD (former name Petrol Storage EOOD) | Power generation | - | - | 50 | 100.00 |
| Petrol Card Service EOOD EOOD | Trade | - | - | 519 | 100.00 |
| Petrol Trade EOOD | Trade | - | - | 50 | 100.00 |
| BPI EOOD | Rent of property | - | - | 9,821 | 100.00 |
| Vratsata EOOD | Recreation services | - | - | 257 | 100.00 |
| Trans Operator AD (former name Translotto AD) | Trade, intermediation and representation | - | - | 2,700 | 99.99 |
| Eurocapital Bulgaria AD | Investment activity | - | - | <u>37,767</u> | 100.00 |
| Total | | <u>69,813</u> | | <u>120,521</u> | |

In May 2007 the Company participated as co-founder in a new company Petrol Gas OOD by subscribing to 90% of the registered capital. In the same month the share capital of the subsidiary Petrol Storage EOOD was increased to BGN 8,757 thousand by in-kind contribution evaluated by a legal expert's report to BGN 8,707 thousand. At the same time the name of the company is changed to New Co Zagora EOOD and production of electricity is included in its scope of activity.

In December 2007 the Company established a new subsidiary Petrol Properties EOOD and subscribes to 100% of the capital.

In accordance with the requirements of art. 114 of the Public Offering of Securities Act, the general and special meetings of the shareholders in July and September 2007, respectively, empower the Managing Board and the Executive Director to conclude contracts for the sale of shares in seven subsidiaries and two associates. In July 2007 the Company sold its shares in the subsidiary New Co Zagora EOOD and realized profit at the amount of BGN 1,043 thousand and in September 2007 – the shares in the subsidiary Trans Operator EOOD and realized loss of BGN 2,700 thousand. In October 2007 two more subsidiaries were sold - BPI EOOD and Eurocapital Bulgaria EAD and as a result losses of BGN 4,821 thousand and BGN 21,867 thousand, respectively, were incurred. The last three subsidiaries – Vratsata EOOD, Petrol Trade EOOD and Petrol Card Service EOOD are sold in November 2007 and losses at the amount of BGN 256 thousand, BGN 50 thousand and BGN 519 thousand, respectively, were incurred. All of the above subsidiaries and associates are sold to the controlling company (see also notes 13 and 18).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

18. Investments in associated companies

| Investments in associated companies | Activity | December 31, 2007 | | December 31, 2006 | |
|-------------------------------------|--|-------------------|--------------|---------------------|--------------|
| | | BGN'000 | % of capital | BGN'000 | % of capital |
| Varna Business Services OOD | Consulting | - | - | 2,835 | 42.69 |
| Petrol Engineering AD | Construction and investment activities | = | - | <u>20</u> | 40.00 |
| Total | | = | | <u>2,855</u> | |

In accordance with the General Meeting of the shareholders (see also note 17) in the current year the Company sold to the Ultimate controlling party its participation in the associated companies Varna Business Services OOD and Petrol Engineering AD incurring losses at the amount of BGN 1,383 thousand and BGN 20 thousand, respectively.

19. Inventories

The inventories as of December 31, 2007 and 2006 include:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|----------------------------|------------------------------|------------------------------|
| Light fuels | 15,049 | 22,340 |
| Lubricants and other goods | 5,426 | 4,886 |
| Materials | <u>1,523</u> | <u>1,478</u> |
| Total | <u>21,998</u> | <u>28,704</u> |

20. Interest-bearing loans granted

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|------------------------------|------------------------------|
| Non-current receivables on interest-bearing loans and finance lease | | |
| Non-current portion of interest-bearing loans, granted to related parties | 156,020 | 146,798 |
| Finance lease receivables | <u>-</u> | <u>9</u> |
| Total | <u>156,020</u> | <u>146,807</u> |
| Current receivables on interest-bearing loans and finance lease | | |
| Current portion of interest-bearing loans, granted to related parties | 10,200 | 4,917 |
| Finance lease receivables | <u>15</u> | <u>9</u> |
| Total | <u>10,215</u> | <u>4,926</u> |

The receivables from related parties are disclosed in note 33.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

21. Trade and other receivables, net

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|---|--|---|
| Trade receivables, net including: | 40,241 | 32,333 |
| <i>Initial cost</i> | 40,252 | 32,341 |
| <i>Accrued impairment</i> | (11) | (8) |
| Receivables from related parties | 19,703 | 11,861 |
| Refundable taxes as a result of adjustments | 17,086 | 10,890 |
| Litigations and writs | 401 | 384 |
| <i>Initial cost</i> | 5,623 | 886 |
| <i>Accrued impairment</i> | (5,222) | (502) |
| Guarantees for participation in tender procedures | 2,930 | 556 |
| Advances granted | 2,329 | 2,043 |
| Receivables from employees | 878 | 704 |
| Deferred expenses | 234 | 240 |
| Others | <u>1,239</u> | <u>1,723</u> |
| Total | <u>85,041</u> | <u>60,734</u> |

The receivables from related parties are disclosed in note 33.

In accordance with the adopted policy the Company grants its customers a loan period after the expiring of which interest is accrued to the unsettled balance in the amount set in each individual contract.

Overdue receivables as of December 31, 2007 and 2006 at the amount of BGN 17,143 thousand and BGN 6,776 thousand, respectively, are included in the balance of the trade and other receivables. The Company has no collateral for these receivables since there is no significant change in the creditworthiness of the counterparties and they are still considered to be recoverable.

An ageing analysis of the overdue amounts, which are unimpaired receivables, is presented below:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|----------------|--|--|
| Up to 30 days | 9,720 | 1,671 |
| 31 - 120 days | 2,906 | 1,845 |
| 121 – 210 days | 1,451 | 1,697 |
| Over 211 days | <u>3,066</u> | <u>1,563</u> |
| Total | <u>17,143</u> | <u>6,776</u> |

The Company believes that the overdue receivables are recoverable since as of the date of the approval of these separate financial statements for issuance approximately 65% of them were paid.

The management of the Company believes that the carrying amount of the trade and other receivables presented in the balance sheet approximates their fair value as of December 31, 2007 and 2006.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

22. Current income tax receivables

The current income tax receivables are as follows:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|---|---------------------------------|---|
| Income tax receivable as of January 1 | 5,721 | 1,329 |
| Accrued corporate income tax | - | (2,941) |
| Paid-in corporate income tax | <u>850</u> | <u>7,333</u> |
| Income tax receivable of December 31 | <u>6,571</u> | <u>5,721</u> |

23. Cash and cash equivalents

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|------------------|---------------------------------|---------------------------------|
| Cash in transfer | 9,245 | 6,472 |
| Cash at banks | 3,076 | 2,718 |
| Cash on hand | <u>35</u> | <u>59</u> |
| Total | <u>12,356</u> | <u>9,249</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

24. Trade and other payables, net

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 restated |
|---|--|---|
| Payables to suppliers | 132,909 | 101,457 |
| Related party payables | 5,999 | 3,987 |
| Tax payables | 3,843 | 1,576 |
| Payables due to personnel and social security funds | 3,511 | 3,107 |
| Advances received | 837 | 606 |
| Others | <u>5,576</u> | <u>3,410</u> |
| Total | <u>152,675</u> | <u>114,143</u> |

Payables to related parties are disclosed in note 33.

The Company accrues provisions for unused paid leave of employees in compliance with IAS 19 Employee Benefits. The movement of these provisions for the period is as follows:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|--|--|
| Balance at the beginning of the period | 1,217 | 969 |
| Accrued during the period | 1,094 | 919 |
| Utilized during the period | <u>(789)</u> | <u>(671)</u> |
| Balance at the end of the period, including: | <u>1,522</u> | <u>1,217</u> |
| <i>Paid leave</i> | <i>1,277</i> | <i>995</i> |
| <i>For social security contributions on unused paid leaves</i> | <i>245</i> | <i>222</i> |

The balance at the end of the period is presented in the balance sheet together with the current liabilities for employee benefits.

The Company's management believes that the carrying amount of the Company's current liabilities, presented in the balance sheet, approximates their fair value.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

25. Interest-bearing loans

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|--|--|
| <i>Current liabilities under interest-bearing loans</i> | | |
| Current portion of liabilities on bank loans | 705 | 2,293 |
| Current portion on liabilities on debenture loans | 18,335 | 3,055 |
| Current portion of liabilities on trade loans from related parties | <u>250</u> | <u>-</u> |
| Total | 19,290 | 5,348 |
| <i>Non-current liabilities under interest-bearing loans</i> | | |
| Non-current portion of liabilities on bank loans | - | 725 |
| Non-current portion of liabilities on debenture loans | <u>192,302</u> | <u>206,492</u> |
| Total | <u>192,302</u> | <u>207,217</u> |
| Total liabilities under interest-bearing loans | <u>211,592</u> | <u>212,565</u> |

In November 2003 the Company issued registered, dematerialized, ordinary, interest bearing and freely transferable bonds at a total amount of BGN 15,000 thousand and nominal value of BGN 1,000 per one bond. The bond issue has a term of 5 years. The bonds bear annual interest rate of 8.375%. The effective interest rate is 8.581%. The bond issue is secured by a corporate guarantee, issued by the majority owner of the Company.

In October 2006 the Company issued 2,000 registered, transferable bonds with fixed annual interest rate of 8.375% and issue value – 99.507% of the face value, which is determined at EUR 50,000 per one bond. The term of the bond issue is 5 years. The issue is secured by Company's receivables under loans, granted to related parties and a corporate guarantee, issued by a subsidiary. The bond issuance expenses amount to BGN 3,049 thousand. Interest is paid once a year. The annual effective interest rate is 9.409%. The purpose of the issue is working capital financing, financing of investment projects and restructuring of the Company's debt.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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26. Obligation under finance lease

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------------|------------------------------|---|------------------------------|
| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
| Amounts payable under finance leases | | | | |
| Within one year | 170 | 242 | 161 | 222 |
| From one to two years | - | 155 | - | 149 |
| Less: Interest payable | <u>(9)</u> | <u>(26)</u> | <u>-</u> | <u>-</u> |
| Present value of finance lease obligations | <u>161</u> | <u>371</u> | <u>161</u> | <u>371</u> |
| Less: Present value of finance lease obligations with maturity less than 1 year | | | (161) | (222) |
| Present value of finance lease obligations with maturity over 1 year | | | <u>=</u> | <u>149</u> |

Assets acquired by the Company by finance lease are mainly vehicles and computers. The average lease term is 3 years. As of December 31, 2007 the average effective interest rate on finance lease contracts is 7.46%.

The Company's management believes that the carrying amount of the finance lease obligations approximates their fair value.

27. Retirement benefits obligations

In the current period the Company has accrued liabilities for retirement benefits based on an actuary valuation, taking into consideration assumptions for mortality, disability, employment turnover, salaries' growth, etc. The present value of the liability is calculated by applying a discount factor of 4%.

The amount of the liabilities for compensations upon retirement is as follows:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|---|------------------------------|------------------------------|
| Balance in the beginning of the period | 470 | - |
| Accrued interest during the period | 18 | - |
| Paid compensation during the period | (70) | - |
| Current length of service | 44 | - |
| Actuary gain (loss) | <u>(4)</u> | <u>470</u> |
| Balance at the end of the period | <u>458</u> | <u>470</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

27. Liabilities for retirement benefits to employees (continued)

The effect on the gain or loss from the accrued liabilities for compensations upon retirement is as follows:

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| | BGN'000 | BGN'000 |
| Accrued interest during the period | 18 | - |
| Amount of acquired rights during the period | 44 | - |
| Actuary gain (loss) | <u>(4)</u> | <u>470</u> |
| Total | <u>58</u> | <u>470</u> |

28. Share capital

The share capital is presented at nominal value, according to the court decision for registration. The fully paid-in share capital, at the amount of BGN 109,250 thousand, is distributed in 109,249,612 registered shares with a nominal value of BGN 1 each.

As of the date of these separate financial statements the shareholders of the Company are as follows:

| Shareholder | December 31, 2007 | December 31, 2006 |
|--|-------------------------------|-------------------------------|
| | % of share capital | % of share capital |
| Petrol Holding AD | 69.10 | 71.75 |
| Naftex Refining and Petrochemical Engineering Services | 18.84 | 18.84 |
| Naftex Petrol AD | 5.15 | - |
| Others | <u>6.91</u> | <u>9.41</u> |
| Total | <u>100.00</u> | <u>100.00</u> |

29. Revaluation reserve

The reserve from revaluation of non-current assets, net of accrued deferred tax, as of December 31, 2007 and 2006 at the amount of BGN 28,137 thousand and BGN 28,817 thousand, respectively, has been allocated as a result of revaluations of property, plant and equipment, intangible assets, and investment properties, carried out in the period 1998 – 2001, as well as of revaluation as of December 31, 2002, in relation to the first time application of IFRS by the Company in the preparation of the Company's separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

30. Earnings (loss) per share

Earnings per share are calculated by dividing the net distributable profit by the weighted average number of ordinary shares held during the reporting period.

| | December 31, 2007 | December 31, 2006 restated |
|--|----------------------|----------------------------------|
| Weighted average number of shares | 109,250 | 109,250 |
| Profit (loss) (BGN'000) | <u>(23,083)</u> | <u>14,055</u> |
| Earnings per share/(loss) per share (BGN) | <u>(0.21)</u> | <u>0.13</u> |

31. Dividends

In accordance with a decision of the General Meeting of the Company held on June 11, 2007 dividends distributed proportionally to the shareholders participation at the amount of BGN 0.077 per share (see also note 28).

32. Financial instruments and risk management

The carrying amounts of assets and liabilities as of December 31, 2007 and 2006 by categories are set in accordance with IAS 39 Financial instruments: Recognition and Measurement and are presented in the following tables:

| Financial assets | <i>Note.</i> | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|--------------|---------------------------------|---------------------------------|
| Available for sale financial assets | | | |
| Investments in subsidiaries | 17 | 69,813 | 120,521 |
| Investments in associated companies | 18 | <u>-</u> | <u>2,855</u> |
| Total | | <u>69,813</u> | <u>123,376</u> |
| Loans granted and receivables | | | |
| Interest-bearing loans granted | 20 | 166,235 | 151,733 |
| Trade and other receivables, net | 21 | 67,700 | 49,582 |
| Cash and cash equivalents | 23 | <u>12,356</u> | <u>9,249</u> |
| Total | | <u>246,291</u> | <u>210,564</u> |
| Total financial assets | | <u>316,104</u> | <u>333,940</u> |
| Financial liabilities | | | |
| Amortized cost of financial liabilities | <i>Note.</i> | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
| Interest-bearing loans | 25 | 211,592 | 212,565 |
| Trade and other payables, net | 24 | 145,321 | 109,460 |
| Obligation under finance lease | 26 | <u>161</u> | <u>371</u> |
| Total | | <u>357,074</u> | <u>322,396</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

32. Financial instruments and risk management (continued)

Company's use of financial instruments exposes it to market, credit and liquidity risk. The present note presents information about risk management goals, policies and processes, as well as capital management. The Ultimate controlling company's Board of Directors sets strategic guidelines for financial risk management as the operative implementation of the adopted policies and the realization of risk management processes are carried out by the Finance Department of the Company.

Market risk

Market risk is the risk of changes of fair value of financial instruments or their future cash flows due to fluctuations in market prices and could reveal as exchange rate, interest or other price risk. In view of the character of the activity, the Company is mainly exposed to interest rate risk since part of the trade receivables and payables, as well as part of the granted trade loans and the received bank loans are with floating interest rate, contracted as a basic interest rate (base interest rate, EURIBOR), increased by a certain margin. The Company performs regular monitoring and analysis of its main interest exposures as it designs different scenarios for optimizing for an instance refinancing, renewing existing loans and other.

As of the date of these separate financial statements the structure of the interest bearing financial instruments is as follows:

| | December 31, 2007 BGN'000 | December 31, 2006 BGN'000 |
|--|---------------------------------|---------------------------------|
| Instruments with fixed interest rate | | |
| Financial assets | 121,487 | 102,118 |
| Financial liabilities | <u>(211,503)</u> | <u>(212,056)</u> |
| Total | <u>(90,016)</u> | <u>(109,938)</u> |
| Interests with floating interest rate | | |
| Financial assets | 61,891 | 49,615 |
| Financial liabilities | <u>(250)</u> | <u>(880)</u> |
| Total | <u>61,641</u> | <u>48,735</u> |

The analysis of the sensitivity to the interest rate risk is prepared on the basis of the presumption that the interest positions with floating interest rates as of the balance sheet date have existed in the same amount during the whole year and the reasonable possible increase /decrease of the interest rate is by 30 base points. If the interest rates were higher/lower by 30 base points, on condition that all other variables were constant, the net loss for the year would be by BGN 166 thousand lower/higher. At the same conditions the net profit for the prior year would be by BGN 124 thousand higher/lower. The financial result after taxation for the current period is more sensitive to the fluctuation in the interest rates due to the increase of the trade receivables, bearing a floating interest rate.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

32. Financial instruments and risk management

Credit risk

Credit risk is the risk for one of the parties on the financial instrument to fail to perform its obligation and in this way to cause loss for the other. Financial assets which potentially expose the Company to credit risk are mainly receivables on sales and granted interest loans. The Company is mainly exposed to credit risk in case the customers do not meet their payment obligations. The retail sales to clients are mainly paid in cash or by using credit cards. The Company's policy in this area is focused on performing sales of finished production and services on credit with clients with good credibility and on using adequate collateral to limit the risk of financial losses. In compliance with this policy, clients are estimated by taking into consideration the information from different sources – client's counterparties, servicing bank, estimates by rating agencies and other factors. The contracts with clients stipulate certain credit limits, agreed individually with each client, which can not be exceeded and credit periods within the framework of particularly defined number of days, and after their expiration and in the event of default, penalty interests are charged.

Receivables from related parties as of December 31, 2007 and 2006 comprise mostly receivables under granted interest-bearing loans, which are not collateralized, and this results in a concentration of a significant credit risk. The management believes that the risk is manageable, since the loans are granted to the Ultimate controlling company and the subsidiary companies.

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

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

Liquidity risk

Liquidity risk is the risk for the Company to fail to perform its due financial liabilities. The policy in this area is focused on securing enough liquid funds to serve the due liabilities, both in extraordinary or unexpected circumstances.

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

| December 31, 2007 BGN'000 | Up to 1 year | From 1 to 2 years | From 3 to 5 years | Total |
|--|---------------------|------------------------------|------------------------------|----------------|
| Liabilities on bank loans | 733 | - | - | 733 |
| Liabilities on debenture loans | 34,456 | 18,200 | 228,950 | 281,606 |
| Liabilities on trade loans | 252 | - | - | 252 |
| Obligation under finance lease | 170 | - | - | 170 |
| Trade and other payables | 145,321 | - | - | 145,321 |
| Total | 180,932 | 18,200 | 228,950 | 428,082 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

32. Financial instruments and risk management (continued)

| December 31, 2006 BGN'000 | Up to 1 year | From 1 to 2 years | From 3 to 5 years | Total |
|--|-----------------------|------------------------------|------------------------------|-----------------------|
| Liabilities on bank loans | 2,412 | 733 | - | 3,145 |
| Liabilities on debenture loans | 19,304 | 34,456 | 247,150 | 300,910 |
| Obligation under finance lease | 242 | 155 | - | 397 |
| Trade and other payables | <u>109,460</u> | <u>-</u> | <u>-</u> | <u>109,460</u> |
| Total | <u>131,418</u> | <u>35,344</u> | <u>247,150</u> | <u>413,912</u> |

Equity management

The Company manages its equity in such a manner so as to ensure its functioning as a going concern, and at the same time strives to maximize the return for the owner by optimizing the ratio between debt and equity. The objective of the management is to retain the trust of the investors, creditors and the market and to guarantee the future development of the Company.

The management of the Company observes the equity structure on the basis of the ratio net debt to equity. Net debt includes long-term and short-term interest loans as well as current and non-current liabilities under finance lease less cash. Share capital, reserves and accumulated profit form the Company's equity.

The adjusting and maintaining of the equity structure is done in close relation to the changes in the economic environment, as well as in relation to risk level, which is inherent to the respective assets (projects), in which investments are made. The basic instruments, which are used for equity structure management are dividend policy, emission or redemption of issued equity and debt instruments, sale of assets and investments, aiming at minimizing the debt level, refinancing of debt by issuing instruments with longer maturity. All decisions for changes in this respect are made taking into consideration the balance between the price and the risks inherent for the different financing sources.

| | December 31, 2007 | December 31, 2006 |
|-------------------------------------|------------------------------|------------------------------|
| Debt | 211,753 | 212,936 |
| Cash | <u>(12,356)</u> | <u>(9,249)</u> |
| Net debt | 199,397 | 203,687 |
| Equity | <u>151,633</u> | <u>183,143</u> |
| Debt – adjusted equity ratio | 1.31 | 1.11 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

33. Related parties transactions

The related parties which the Company controls and has significant influence on are disclosed in notes 17 and 18.

The Parent company is Petrol Holding AD.

The following transactions with related parties have been performed during the reporting period:

Related party

| | |
|-------------------------------------|--|
| Petrol Holding AD | ultimate controlling party |
| Izvor Bottling Company AD | subsidiary of Petrol Holding AD |
| Varna Business Services OOD | subsidiary of Petrol Holding AD |
| Air Lazur – General Aviation EOOD | subsidiary of Petrol Holding AD |
| Interhotel Bulgaria Burgas EOOD | subsidiary of Petrol Holding AD |
| Naftex Security EAD | subsidiary of Petrol Holding AD |
| Ross Oil EOOD | subsidiary of Petrol Holding AD |
| Jurex Consult AD | subsidiary of Petrol Holding AD |
| Tema Sport OOD | subsidiary of Petrol Holding AD |
| PSFC Chernomoretz Bourgas AD | subsidiary of Petrol Holding AD from August 2006 |
| Balneohotel Pomorie AD | subsidiary of Petrol Holding AD from December 31, 2006 |
| New Co Zagora EOOD | subsidiary of Petrol AD up to August 1, 2007 and subsidiary |
| (with old name Petrol Storage EOOD) | Petrol Holding AD from August 1, 2007 |
| BPI EAD | subsidiary of Petrol AD up to November 1, 2007 and |
| | subsidiary of Petrol Holding AD from November 1, 2007 |
| Eurocapital Bulgaria AD | subsidiary of Petrol AD up to November 1, 2007 and |
| | subsidiary of Petrol Holding AD from November 1, 2007 |
| Trans Operator AD (with old name | subsidiary of Petrol AD up to October 1, 2007 and subsidiary |
| Translotto AD) | Petrol Holding AD from October 1, 2007 |
| Naftex Petrol EOOD | subsidiary of Petrol AD |
| Petrol Technika EOOD | subsidiary of Petrol AD |
| Petrol Trans Express EOOD | subsidiary of Petrol AD |
| Petrol Gas OOD | subsidiary of Petrol AD |
| Petrol Properties EOOD | subsidiary of Petrol AD |
| Transhold Bulgaria Holding AD | subsidiary of Petrol Holding AD |
| Transat AD | subsidiary of Transhold Bulgaria Holding AD |
| Trans Telecom EAD | subsidiary of Transhold Bulgaria Holding AD |
| Transcard AD | subsidiary of Transhold Bulgaria Holding AD |
| Transcard Financial Services EAD | subsidiary of Transcard AD |
| Transcard Payment Services EAD | subsidiary of Transhold Bulgaria Holding AD |
| Naftex Engineering AD | associated company of Petrol Holding AD |
| Tema News AD | associated company of Petrol Holding AD |
| PFC Naftex AD | subsidiary of Petrol Holding AD up to August 2006 |
| PFC Pomorie AD | associated company of Petrol Holding AD |
| | up to August 2006 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

33. Related parties transactions (continued)

The performed transactions relate mainly to:

- Purchase and sale of fuel oil;
- Granting and receiving loans;
- Purchase and sale of property, plant and equipment;
- Holding fees and services.

The volume of the transactions performed with related parties for 2007 and 2006 are as follows:

| Related parties | December 31, 2007 BGN '000 Sale of goods and services | December 31, 2006 BGN '000 Sale of goods and services | December 31, 2007 BGN '000 Purchase of goods and services | 31 декември 2006 BGN '000. Purchase of goods and services |
|-----------------------------------|--|--|--|--|
| Ultimate controlling party | 124 | 137 | 1,456 | 1,413 |
| Subsidiaries | 4,766 | 5,557 | 83,141 | 52,134 |
| Subsidiaries sold in 2007 | 135 | 20 | 2,161 | 737 |
| Associated companies sold in 2007 | 6 | 5 | 187 | 189 |
| Companies under common control | <u>1,156</u> | <u>1,045</u> | <u>10,723</u> | <u>6,473</u> |
| Total | <u>6,187</u> | <u>6,764</u> | <u>97,668</u> | <u>60,946</u> |

| Related parties | December 31, 2007 BGN '000 Finance income | December 31, 2006 BGN '000 Finance income | December 31, 2007 BGN '000 Finance cost | December 31, 2006 BGN '000 Finance cost |
|-----------------------------------|--|--|--|--|
| Ultimate controlling party | 35,506 | 1,641 | - | - |
| Subsidiaries | 10,568 | 2,081 | 2 | - |
| Subsidiaries sold in 2007 | 8,067 | 5,304 | - | - |
| Associated companies sold in 2007 | <u>9</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>54,150</u> | <u>9,026</u> | <u>2</u> | <u>-</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

33. Related parties transactions (continued)

The outstanding balances with related parties as of December 31, 2007 and 2006 are as follows:

| Related parties | December 31, 2007 BGN'000 Receivables | December 31, 2006 BGN'000 Receivables | December 31, 2007 BGN'000 Payables | December 31, 2006 BGN'000 Payables |
|---|--|--|---|---|
| Ultimate controlling party, incl.: | 48,196 | 49,565 | 543 | 50 |
| <i>Interest-bearing loans</i> | <i>44,698</i> | <i>49,565</i> | - | - |
| Subsidiaries, incl.: | 132,506 | 112,783 | 3,645 | 3,113 |
| <i>Interest-bearing loans</i> | <i>121,472</i> | <i>102,100</i> | <i>250</i> | - |
| Subsidiaries sold in 2007 | 932 | 859 | 1,411 | 34 |
| Associated companies sold in 2007 | 97 | 96 | 55 | 58 |
| Companies under common control, incl.: | 4,192 | 273 | 595 | 732 |
| <i>Interest-bearing loans</i> | <i>50</i> | <i>50</i> | - | - |
| Total | <u>185,923</u> | <u>163,576</u> | <u>6,249</u> | <u>3,987</u> |

The total amount of the accrued remuneration of the members of the Managing Board and the Supervisory Board, included in the expenses for the personnel, is BGN 1,010 thousand and BGN 821 thousand in 2007 and 2006, respectively.

34. Errors in prior reporting periods

The effects from correction of errors occurred in the calculation of some items in the income statement for 2006 are presented in the table below:

| Changes in income statement | December 31, 2006 before restatement BGN' 000 | Effect from error BGN' 000 | December 31, 2006 restated BGN '000. |
|---|---|-------------------------------|--|
| Revenue | 649,877 | (3,291) | 646,586 |
| Other income | 4,543 | - | 4,543 |
| Cost of goods sold | (564,587) | - | (564,587) |
| Materials | (6,844) | - | (6,844) |
| Hired services | (25,120) | - | (25,120) |
| Employee benefits expenses | (21,118) | - | (21,118) |
| Depreciation and amortization expenses | (13,750) | - | (13,750) |
| Other expenses | (3,700) | - | (3,700) |
| Finance income | 9,051 | - | 9,051 |
| Finance cost | (8,109) | - | (8,109) |
| Profit (loss) before taxation | 20,243 | (3,291) | 16,952 |
| Tax income (expense) | (3,390) | 493 | (2,897) |
| Net profit (loss) for the period | <u>16,853</u> | <u>(2,798)</u> | <u>14,055</u> |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
for the year ended December 31, 2007

34. Errors in prior reporting periods (continued)

The effects from corrections of errors occurred in the calculations of some items of the Company's balance sheet as of January 1 and December 31, 2006 are presented in the table below:

| Change in balance sheet | January 1, 2006 audited | January 1 2006 effect of error | January 1, 2006 restated | December 31, 2006 audited | December 31, 2006 effect of error | December 31, 2006 effect of presentation error | December 31, 2006 restated |
|--------------------------------------|-------------------------------|---|--------------------------------|---------------------------------|--|--|----------------------------------|
| | BGN'000. | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 | BGN'000 |
| Non-current assets | | | | | | | |
| Property, plant and equipment | 138,913 | - | 138,913 | 132,268 | - | - | 132,268 |
| Intangible assets | 1,398 | - | 1,398 | 1,130 | - | - | 1,130 |
| Investment properties | 18,201 | - | 18,201 | - | - | - | - |
| Investments in subsidiaries | 95,255 | - | 95,255 | 120,521 | - | - | 120,521 |
| Investments in associates | 2,855 | - | 2,855 | 2,855 | - | - | 2,855 |
| Interest-bearing loans granted | 19 | - | 19 | 146,807 | - | - | 146,807 |
| Total non-current assets | 256,641 | - | 256,641 | 403,581 | - | - | 403,581 |
| Current assets | | | | | | | |
| Inventories | 30,768 | - | 30,768 | 28,704 | - | - | 28,704 |
| Interest-bearing loans granted | 10,247 | - | 10,247 | 4,926 | - | - | 4,926 |
| Trade and other receivables, net | 21,252 | 13,195 | 34,447 | 16,303 | 18,601 | 25,830 | 60,734 |
| Current income tax receivable | - | 1,329 | 1,329 | 412 | 5,309 | - | 5,721 |
| Cash and cash equivalents | 6,888 | - | 6,888 | 9,249 | - | - | 9,249 |
| Total current assets | 69,155 | 14,524 | 83,679 | 59,594 | 23,910 | 25,830 | 109,334 |
| Total assets | 325,796 | 14,524 | 340,320 | 463,175 | 23,910 | 25,830 | 512,915 |
| Current liabilities | | | | | | | |
| Trade and other payables | 60,367 | 14,005 | 74,372 | 65,611 | 22,702 | 25,830 | 114,143 |
| Interest-bearing loans | 20,293 | - | 20,293 | 5,348 | - | - | 5,348 |
| Obligations under finance lease | 37 | - | 37 | 222 | - | - | 222 |
| Current income tax payable | 3,487 | (3,487) | - | - | - | - | - |
| Retirement benefits obligations | - | - | - | 32 | - | - | 32 |
| Total current liabilities | 84,184 | 10,518 | 94,702 | 71,213 | 22,702 | 25,830 | 119,745 |
| Net current assets | (15,029) | 4,006 | (11,023) | (11,619) | 1,208 | - | (10,411) |
| Non-current liabilities | | | | | | | |
| Interest-bearing loans | 73,503 | - | 73,503 | 207,217 | - | - | 207,217 |
| Obligation under finance lease | 33 | - | 33 | 149 | - | - | 149 |
| Retirement benefits obligations | - | - | - | 438 | - | - | 438 |
| Deferred tax liabilities | 3,867 | - | 3,867 | 2,223 | - | - | 2,223 |
| Total non-current liabilities | 77,403 | - | 77,403 | 210,027 | - | - | 210,027 |
| Net assets | 164,209 | 4,006 | 168,215 | 181,935 | 1,208 | - | 183,143 |
| Equity | | | | | | | |
| Share capital | 109,250 | - | 109,250 | 109,250 | - | - | 109,250 |
| Revaluation reserve | 28,865 | - | 28,865 | 28,817 | - | - | 28,817 |
| Other reserves | 10,453 | - | 10,453 | 10,598 | - | - | 10,598 |
| Retained earnings | 15,641 | 4,006 | 19,647 | 33,270 | 1,208 | - | 34,478 |
| Total equity and | 164,209 | 4,006 | 168,215 | 181,935 | 1,208 | - | 183,143 |

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***34. Errors in prior reporting periods (continued)****34.1. Accounting error in calculation of income from remuneration**

During the period from 2004 to 2006, the Company has recognized income from remuneration, respectively trade receivables under a signed contract for delivery of fuel, dated July 27, 2001 (the Contract) with Lukoil Bulgaria EOOD (the Counterparty) at the total amount of BGN 101,285 thousand. Due to the occurred disagreement with the Counterparty, regarding the method of calculation of part of the accrued remuneration for the period from 2004 to 2005, as of December 31, 2004 and 2005 an impairment of the disputed receivables is recognized at the total amount of BGN 25,830 thousand. Due to profound disagreement with the Counterparty and the vague possibility for future economic benefits, and following the requirements for revenue recognition as per IAS 18 Revenues, effective January 1, 2006 the Company suspends the inclusion of this income in the separate financial statements, and currently reports its claims off-balance sheet. Simultaneously, the amount of the accrued claims is deducted from the current payments to the Counterparty. As a result of the accumulation of considerable outstanding amounts under the Contract and after the depletion of the possibilities for their settlement in the course of normal trade negotiations, during the first half of 2007 the Company and the Counterparty prosecute cross-action claims before Sofia City Court, where they state their claims.

At the beginning of 2008, the parties held new negotiations, as a result of which on March 12, 2008 an out-of-court agreement was signed, by virtue of which the initiated proceedings and the Contract were abolished, effective January 1, 2008 (see also note 37.1.).

In the course of negotiations the Company accepts that it has incorrectly estimated the amount of the claimed remuneration and on basis of the issued in March 2008 credit notes the Company retrospectively corrects the amount of the accrued income for remuneration for previous reporting periods and the accrued impairment on receivables, respectively. The effects from the corrections are reported retrospectively in the current period as errors from previous reporting periods and as a result of these corrections the Company has increased the accumulated profit as of the end of 2005 with BGN 4,145 thousand, trade and other receivables with BGN 5,451 thousand, trade and other payables with BGN 6,096 thousand and the recoverable income tax with BGN 4,791 thousand. The effects from corrections arise as a result from a decrease in the income generated from sales with BGN 3,291 thousand which leads to a decrease in the current tax expense and increase in the recoverable income tax with BGN 493 thousand.

34.2. Accounting error as a result of the revocation of cession contract for receivable

In 2005, as a result of a signed cession contract, the Company acquired a receivable of a subsidiary from the Counterparty at the consideration of BGN 7,711 thousand under a contract for storage of fuel at the amount of BGN 7,909 thousand. As of the date of the contract the receivable is disputed by the Counterparty due to claims to the method of calculation of the remuneration for the rendered services. At the end of prior reporting periods, the acquired by cession receivable is claimed in the Company's balance sheet, offset with the trade payables to the Counterparty.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***34. Errors in prior reporting periods (continued)**

In March 2008, after held negotiations with the Counterparty, the subsidiary reviewed the methods of its calculations and established that due to incorrect application of the parameters, set in the contract, the remuneration for the rendered services for storage for 2005 is incorrectly overstated by the disputed amount of BGN 7,909 thousand. As a result of that, after they ascertain that the acquired by the Company receivable has not been valid and therefore it has not met the conditions for recognition of an asset as of the date of the transaction, the parties agree to revoke the concluded cession agreement, as for this purpose on March 12, 2008 an additional agreement is signed (see also note 37.3). The effects of the transaction are adjusted retrospectively during the current period as errors in prior reporting periods, as a result of the performed adjustments, the Company has decreased the accumulated profit till the end of 2005 by BGN 139 thousand, increased the receivables from related parties at the amount of BGN 7,711 thousand and trade and other receivables, which amount to BGN 33 thousand, increased the trade and other payables by BGN 7,909 thousand, and also has increased the amount of the recoverable income taxes by BGN 25 thousand.

34.3. Presentation error related to trade receivables and payables

Due to a clerical mistake, trade and other receivables and trade and other payables in the balance sheet as of December 31, 2006 have been understated by BGN 25,830 thousand. The presentation error has been corrected in the current reporting period retrospectively and the comparative information has been amended, in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

35. Contingent liabilities

As of December 31, 2007 the Company has contingent liabilities for guaranteed promissory notes to third parties for liabilities of related parties, at the amount of BGN 188,298 thousand, for guarantees and issued corporate guarantees as collateral under bank loans to related parties at the amount of BGN 18,097 thousand as well as for non-current assets mortgages as collateral under bank and trade loans, granted to the Controlling company with total carrying amount of BGN 19,115 thousand.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***36. Environment**

In relation to the privatization of the Company in 1999 for most of the Company's sites (petrol depots and gas stations) reports for valuation of the influence on the environment are prepared and approved by a council of experts with the Ministry of Environment and Waters (MoEW). Based on these reports Permissions for Exploitation of MoEW are issued. After the privatization the Company undertakes a large-scale investment programme aiming to set its sites in compliance with the best European practices. Hence, the sites are reconstructed in compliance with Directive 94/63/EC, which has been transferred to the Bulgarian legislation by means of Regulation No 16 of August 12, 1999 (the Regulation) on the control of volatile organic compound emissions resulting from the storage, loading or unloading and transportation of petrol, issued based on Art. 9, para 1 of the Clean Air Act. The reconstruction of the gas stations is preceded by environmental characteristics for each investment offer. The reconstruction of the gas stations is preceded by environmental characteristics for each investment offer. These characteristics are presented to the Regional Inspections of Environment and Waters (RIEW) for construction permission.

During the period 2008-2009 depending on the technological characteristics and by observing the requirements of the Regulation, 74 petrol stations will be set in compliance with the respective standards. The approximate estimation of the Management is that the reconstructions amounts in total to BGN 518 thousand.

The actual amount and the time for performing the reconstruction may significantly differ from the above mentioned approximate estimations.

As of the date of these separate financial statements there is no obligating event under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, related to the commitment of the Company for environment protection, according to the current legislation in Bulgaria, and therefore no provisions have been accrued.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
*for the year ended December 31, 2007***37. Post balance sheet events****37.1. Out-of-court agreement**

On March 12, 2008 an out-of-court agreement was signed (the Agreement) with Lukoil Bulgaria EOOD (the Counterparty). By signing this document, the parties agree to settle by mutual acceptable way all its legal relationships, arising from the contract for sale of fuels, concluded between them on July 27 2001 (the Contract), and all its other relationships, existing as of the effective date of the Agreement. On the grounds of the achieved agreements, the parties have taken legal actions, by which a complete, unconditional and unrevokable remission of a claim was performed on the prosecuted by them cross-action legal claim procedures before Sofia City Court, without mutual claims for expenses, as they have disclaimed also from contests made in the course of the procedures and the prosecuted adverse claims. Immediately after the performance of the contests, the parties have simultaneously undertaken and performed all necessary legal and factual actions for the termination of the court proceedings.

Together with the remission of the above mentioned legal claims, the parties agree to terminate the operation of the Contract, effective January 1, 2008, by signing an express annex on the same date. In pursuance of the agreed with the annex additional clauses, in March 2008 the Company issued credit notes for adjustment to the amount of the consideration, owed by the Counterparty under the Contract for the period from 2004 to 2006 at the amount of BGN 54,284 thousand and for 2007 at the amount of BGN 11,081 thousand, excluding value added tax (VAT). Additionally, in the annex the amount of Company's liabilities for the available as of the balance sheet date fuel and merchandise, owned by the Counterparty, is determined at the amount of BGN 15,543 thousand, excluding VAT, net of the receivables for scrapped goods amounting to BGN 100 thousand, excluding VAT. The Company has classified the above subsequent event as adjusting event and has dealt with its effects in accordance with the requirements of IAS 10 Post balance sheet events by recording the errors as restatement of the prior period financial statements.

37.2. Asset disposal

As an integral part of the signed agreement on March 12, 2008, the Company is obliged to sell to the Counterparty 75 of its own petrol depots, including real estate and equipment, at the price of BGN 305,305 thousand (EUR 156,100 thousand). The carrying amount of the non-current assets, subject to sale, as of December 31, 2007 is BGN 46,426 thousand. A preliminary contract is signed for the sale of the real estate. As of the date on which these separate financial statements were authorized for issue, the sale of the fuel stations has not been completed yet as the final contracts transferring the ownership on land and buildings have not been signed

37.3. Revocation of cession contract for receivable

An additional agreement with a subsidiary was signed on March 12, 2008, as a result of which, the cession contract signed between the parties on December 30, 2005 for transfer of a receivable from the Counterparty at the amount of BGN 7,711 thousand (see also note 34.2) has been revoked. The Company has classified the above subsequent event as adjusting event and has dealt with its effects in accordance with the requirements of IAS 10 Post balance sheet events by recording the errors as restatement of the prior period financial statements.