YURI GAGARIN PLC

Annual Financial Statements for 2012

Board of Directors		
	Chairman	Petko Ivanov Hitrov
	Deputy Chairwoman	Preslava Kalinova Karadzhova
	Executive Director	Ivan Krumov Sharlandzhiev
Chief Accountant		Krasimira Haralampieva Stoeva
Address of Management		Plovdiv city 1 Rogoshko shausse
Legal Adviser		Petar Nikov
Bankers		First Investmant Bank AD DSK Bank AD
Auditor		Boyana Toncheva /a registered auditor/ through BOTON ODIT EOOD /limited liability private company/

YURI GAGARIN Plc

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

		01.01.2012 31.12.2012 BGN '000	01.01.2011 31.12.2011 BGN '000
Income from sale of products		45 212	48 422
Other income		2 298	1758
Operating income		47 510	50 180
Costs of materials		(30 141)	(28 912)
Costs of hired services		(1 877)	(3 118)
Depreciacion and amortization costs		(4 265)	(3 778)
Personnel expenses		(6 089)	(6 464)
Other expenses		(2 123)	(771)
Operating expenses		(44 495)	(43 043)
Carrying amount of assets sold		(1 445)	(1 356)
Change in inventories of finished goods and work-in-progress		314	(220)
Capitalized own expenses		-	107
Adjustment amounts		(1 131)	(1 469)
Financial performance		1 884	5 668
Financial income		122	18
Financial expenses		(1 006)	(586)
Result from finance activity		(884)	(568)
Financial result for the period before taxes		1 000	5 100
Income tax expense		(116)	515
Financial result for the period after taxes		884	4585
Total comprehensive income for the period		884	4 585
Earnings per share	BGN	0,88	4,57

Chief Accountant (preparer):

(Krasimira Stoeva)

Executive Director:

(Ivan Sharlandzhiev)

Certified under the Auditor's Report:

(Boyana Toncheva – Registered Auditor)

BALANCE SHEET

for the year ended 31 December 2012

	31.12. 2012 BGN '000	31.12. 2011 BGN '000
ASSETS		
Property, plant and equipment	47 751	48 120
Intangible assets	403	157
Investments and investment property	1 036	1038
Non-current assets	49 190	49 315
Inventories	11 841	12 226
Trade and other receivables	5 323	6 197
Cash and cash equivalents	14 141	3 107
Current assets	31 305	21 530
TOTAL ASSETS	80 495	70 845
EQUITY AND LIABILITIES		
Share capital	1 004	1 004
Reserves	5 239	5 666
Retained earnings from prior periods	54 608	49 549
Net profit for the period	884	4 585
Equity	61 735	60 804
Deffered tax liabilities	937	1 107
Retirement benefit obligations	737	659
Long term finance lease payables	1 612	2 472
Long term bank loans	936	1454
Non-current liabilities	4 249	5 692
Current portion of long term bank loan	11 782	805
Trade payables	1982	2 359
Tax liabilities	244	359
Other current liabilities	503	1 328
Current liabilities	14 511	4 349
TOTAL LIABILITIES	18 760	10 041
TOTAL EQUITY AND LIABILITIES	80 495	70 845

Chief Accountant (preparer): (Krasimira Stoeva)

Executive Director: (Ivan Sharlandzhiev)

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YURI GAGARIN PLC

CASH FLOW STATEMENT

for the year ended 31 December 2012

	01.01.2012 31.12.2012 BGN '000	01.01.2011 31.12.2011 BGN '000
Cash flows from operating activities		
Proceeds from customers	55 783	56 418
Payments to supliers	(36 553)	(34 832)
Personnel and social security payments	(5 956)	(6 319)
Taxes paid (exclusive of income taxes)	(5 366)	(4 930)
Income taxes paid	(443)	(885)
Interest received	4	4
Interest and bank charges paid for working capital loans	(231)	(257)
Foreign currency exchange differences, net	(9)	(8)
Other proceeds/ (payments), net	(779)	(1294)
Net cash flows from operating activities	6 450	7 897
Cash flows from investing activities		
Purchases of property, plant and equipment	(5 152)	(6 093)
Proceeds from sales of property, plant and equipment	333	208
Net cash flows used in investing activities	(4 819)	(5 885)
Cash flows from financing activities		
Proceeds from borrowings	11 735	2 250
Payments on bank loans	(1 249)	(2 217)
Interest paid on investment loans	(518)	(335)
Payments on finance lease	(565)	(69)
Net cash flows from/used in finance activities	(9 403)	(371)
Net increase in cash and cash equivalents	11 034	1 641
Cash and cash equivalents on 1 January	3 107	1 466
Cash and cash equivalents on 31 December	14 141	3 107

Chief Accountant (preparer):

(Krasimira Stoeva)

Executive Director:

(Ivan Sharlandzhiev)

Certified under the Auditor's Report:

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YURI GAGARIN PLC

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital	*Statutory reserve*	*Revaluation reserve*	*Accumulated profit*	*Total equity*
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance on 1 January 2011	1 004	446	5 286	49 313	56 049
Total comprehensive income for 2011				4 585	4 585
Other changes	-	-	(74)	245	171
* other changes					
* transfer to "Accumulated profit" upon withdrawal (depreciation) of property, plant and equipment			(74)	245	171
Deferred taxes effect on items taken directly to equity			8	(9)	1
Balance on 31 December 2011	1 004	446	5 220	54 134	60 804
Total comprehensive income for 2009				884	884
Other changes	-	-	(474)	474	-
* transfer to "Accumulated profit" upon withdrawal (depreciation) of property, plant and equipment			(474)	474	-
* other changes					
Deferred taxes effect on items taken directly to equity			79		79
Balance on 31 December 2012	1 004	446	4 793	55 492	61 735

Chief Accountant (preparer):

(Krasimira Stoeva)

Executive Director:

(Ivan Sharlandzhiev)

Certified under the Auditor's Report:

(Boyana Toncheva – Registered Auditor)

NOTES TO THE FINANCIAL STATEMENTS OF YURI GAGARIN PLC

1. COMPANY INFORMATION

Yuri Gagarin Plc (until 08 May 2009 - *Plovdiv – Yuri Gagarin BT* Plc) is a joint-stock company (akcionerno drujestvo or AD pursuant to the Bulgarian legislation). The Company is based in Plovdiv and the address of the management is: Plovdiv, 1 Rogoshko Shosse.

The company was registered with Decision No. 11852 of the Plovdiv District Court (PDC) on 01.12.1993 under company case (c.c.) No. 9084/1993.

The Company is entered into the BULSTAT Unified Public Classifier of Economic Entities under Identification No BG 825203984 and is registered with the State Public Social Security Office. The Company is registered under the VAT Law. The shares of the Company are traded on the *Bulgarian Stock Exchange Sofia* AD.

1.1. Ownership and management

Yuri Gagarin Plc is a public company pursuant to the Law on Public Offering of Securities. As at 31 Dec 2012 the distribution of the company's share capital is as follows:

Baranco EOOD	49,00 %
Comso Tobacco OOD	18,00 %
Other legal entities	29,37 %
Physical persons	3,63 %

Yuri Gagarin Plc has a one-tier management system – a Board of Directors composed of three members. The company is represented and managed by the Executive Director - Mr. Ivan Krumov Sharlandzhiev.

The remuneration of the Board of Directors' members for 2012 amounts to 228 thousand.

The remuneration of the auditor as per contract for 2012 amounts to BGN 20 thousand, excluding VAT.

As at 31 Dec 2012 the personnel employed in the company is 273 persons (as at 31 Dec 2011 – 336 persons).

1.2 Scope of activity

The main lines of business of the Company in 2012 include the following types of transactions and deals:

- Production of multicolour cardboard and paper printed packages.
- Production of cigarette filter rods and cigarette filter tubes (the latter activity was terminated by the adoption of the amendments to the Law on Tobacco and Tobacco Products, promulgated in State Gazette, issue 50 of 03.07.2012)
- Foreign trade activities.

2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

2.1. Basis for preparation of the Financial Statements

The Financial Statements of *Yuri Gagarin Plc* have been prepared in compliance with the International Financial Reporting Standards (IFRS) which comprise: Financial Reporting Standards and Interpretations of the IFRS Interpretation Committee (IFRIC), adopted by the International Accounting Standards Board (IASB) and International Accounting Standards and Interpretations of the Standing Interpretations Committee (SIC), adopted by the International Accounting Standards Committee, which have been adopted by the Commission of the European Union.

The company prepared its opening balance sheet under International Financial Reporting Standards (IFRS) on 31 Dec 2000, which is considered as the date of transition to the IFRS.

In connection with the amendment of IAS 1 *Presentation of Financial Statements,* the company prepares one general *Statement of Comprehensive Income*.

For the current financial year, the company has adopted all new and/or revised standards and interpretations issued by the International Accounting Standards Board (IASB) and respectively by the IFRS Interpretation Committee, which are applicable to its activity.

At the date of these financial statements the standards that are not effective in the company since they do not refer to its activities are as follows:

- ✓ IFRS 1 First-time Adoption of International Financial Standards
- ✓ IFRS 2 Share-based Payment
- ✓ IFRS 3 Business Combinations
- ✓ IFRS 4 Insurance Contracts
- ✓ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- ✓ IFRS 6 Exploration for and Evaluation of Mineral Assets
- ✓ IFRS 8 Operating Segments
- ✓ IAS 11 Construction Contracts
- ✓ IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- ✓ IAS 27 Consolidated and Separate Financial Statements
- ✓ IAS 29 Financial Reporting in Hyperinflationary Economies
- ✓ IAS 31 Interests In Joint Ventures
- ✓ IAS 41 Agriculture

The company maintains its accounting ledgers in Bulgarian Lev (BGN), which is accepted to be the company's reporting currency. The data in the financial statements and the notes thereto are presented in thousands of levs (BGN'000).

In connection with the amendment of IAS 1 Presentation of Financial Statements, the company shall prepare one total general/consolidated Statement of Comprehensive Income.

The management of the company has decided to prepare its Statement of Comprehensive Income on itemized expenses basis, instead of the functional indication basis used till now, considering that the method of classification of expenses by type/nature (expenses for materials, hired services, depreciation and amortization, personnel expenses, social security contributions and other expenses) is more popular in this country and therefore is preferred by many analysts and investors as a form of disclosing information about income, expenses and financial result for a fixed period. Data from the preceding year has been reclassified in the Statement of Comprehensive Income and the notes to it.

The presentation of the financial statements in accordance with IFRS requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities and the disclosure of contingent receivables and liabilities as on the date of the financial statements, the reported amounts of income and expenses of the reporting year, respectively.

The estimates, accruals and assumptions are based on the information, which is available on the date of the financial statements, and therefore, the future actual results might be different.

The financial statements have been prepared in accordance with the requirements and principles of going concern.

2.2. Comparative Data

The company presents comparative information in the financial statements for one prior year.

Whenever necessary the comparative data may be re-classified (and re-calculated) in order to achieve comparability in relation to changes in the presentation during the current year.

2.3 Functional currency and recognition of foreign currencies exchange differences

The company's reporting currency and the Financial Statements' presentation currency is the Bulgarian Lev.

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency with an indication of the exchange rate on the date of the transaction, applied to the foreign currency amount.

Cash, receivables and payables denominated in foreign currencies are recorded in the functional currency, applying the exchange rate as published by the Bulgarian National Bank on the last working day of the respective month.

2.4. Income and Expenses

Income is recognized on an accrual basis and to the extent to which it is probable that the economic benefits will flow to the company and the income will be reliably measured.

Income from sales of products, goods and materials is recognized when all significant risks and benefits of their ownership pass over to the buyer.

Expenses are recognized at the time they are incurred, following the accrual and matching principles.

2.5 Property, Plant and Equipment

Property, plant and equipment (non-current tangible assets) are stated in the balance sheet at revalued amount less accumulated depreciation and any impairment losses, except for the fixtures and fittings, which are valued at inflated cost.

Initial Measurement

Upon their initial acquisition property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties, and any directly attributable costs of bringing the asset into working condition. The directly attributable costs include: the cost of site preparation, initial delivery and handling costs, installation costs, professional fees paid, non-refundable taxes, etc.

The company has set a materiality level of BGN 500 below which the assets acquired are treated as current expenses at the time of their acquisition, despite their characteristics of a non-current asset.

Subsequent Evaluation

The approach chosen by the company for subsequent valuation of property, plant and equipment is the model of the revalued amount under IAS 16 - revaluated amount less subsequent accrued depreciation and accumulated impairment losses.

Revaluation of property, plant and equipment is made by certified appraisers usually every 5 years. Such revaluations were done as at 31 Dec 2000, 31 Dec 2005 and as at 31 Dec 2010.

Depreciation Methods

The company applies the straight-line depreciation method for tangible non-current assets. Land is not depreciated.

The useful life per group of assets is as follows:

• buildings (depending on the function and construction)	from 20 to 70 years
• machinery, plant and equipment	from 7 to 18 years
• computers	4 years
• transportation means (motor cars)	8 years
• fixtures and fittings	8 years

The useful life of non-current assets is reviewed at the end of each reporting year and in case any material deviations from the future expectations of their period of use, the latter is adjusted prospectively.

Subsequent Expenses

Repair and maintenance expenses are recognized as current for the period when incurred.

Any subsequent expenses, related to property, plant and equipment, that have the nature of replacement of certain components, unit parts and aggregates or of improvements and reconstruction shall be capitalized to the carrying amount of the respective asset and its residual useful life to the date of capitalization is assessed accordingly. At the same time, the non-depreciated portion of the replaced components shall be written off from the carrying amount of the assets and shall be recognized as part of the current expenses for the period of reconstruction.

Impairment of tangible non-current assets

The carrying amount of tangible non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might permanently differ from their recoverable amount.

2.6 Intangible Assets

Intangible assets are stated in the financial statements at cost less accumulated depreciation. They include licenses for use of software products.

The company applies the straight-line depreciation method for the intangible assets with a determined useful life of 4 years.

The carrying amount of the intangible assets is subject to review for impairment.

2.7 Investments Available-for-Sale

The company's investments are reviewed for impairment. When such impairment is determined, it is reported in the statement of comprehensive income.

2.8 Inventories

Inventories are valued at the lower of cost and net realizable value.

Expenses incurred for bringing a certain product to its current condition and location are included in the production cost, as follows:

- raw and other readily available materials: all delivery costs, including purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials ready for use;
- finished goods and work in progress: direct costs of materials and labor and the attributable portion of the manufacturing indirect costs, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange differences and borrowing costs.

When inventories are used (sold), the method of weighted average price (cost) is applied.

The net realizable value represents the estimated selling price of an asset in the ordinary course of business less the estimated costs of completion and the estimated selling expenses of this asset.

2.9 Trade and Other Receivables

Trade receivables are presented and reported at the original invoiced amount (cost) less the value of written down receivables not collected. An estimate of losses derived from doubtful and bad debts is made when collection of the full amount or part of it is highly improbable. Bad debts over 1 year are written-down at 100 % and are written-out when legal grounds for that are identified.

2.10 Cash and Cash Equivalents

Cash include cash in hand and cash in current and deposit accounts.

For the purpose of the cash flow statement:

- cash proceeds from customers and cash paid to suppliers are presented at gross amounts, including value added tax (20%).
- interest paid on investment loans is included as payments for financing activities.
- VAT paid for purchase of non-current assets is reported as *payments to suppliers* in the cash flows from operating activities in so far it participates and is refunded together with and in the operating flows of the company for the relevant period (month).

2.11 Payables to Suppliers and Other Payables

Payables to suppliers and other current liabilities are carried at original invoice amount (cost), which is accepted as the fair value of the transaction to be paid off in the future for goods and services received.

2.12. Interest-bearing loans and other borrowed financial resources

All loans and other borrowed financial resources are presented at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, net of any direct costs related to those loans and attracted resources.

2.13 Lease

Finance Lease

Finance lease where a substantial part of all risks and benefits incidental to the ownership of the leased asset is transferred to the company, is capitalized in the balance sheet of the lessee as leased property, plant and equipment at the price of prompt sale or at the current value of the minimum lease payment, in case the latter is lower.

Lease payments include the financial expenses (interest) and the part of the lease obligation (principal) in a given proportion, in order to have a permanent interest rate for the remaining unpaid part of the principal under the lease obligation. The interest expenses are included in the statement of the comprehensive income.

The assets acquired under finance lease are depreciated based on the useful life of the asset.

Operating Lease

Leases where the lessor keeps the substantial part of all risks and benefits incidental to the ownership of the specific asset are classified as operating leases.

Operating lease payments/proceeds are recognized as expenses/income in the statement of comprehensive income on a straight-line basis over the lease term.

2.14 Pension and Other Liabilities to Personnel

The employment and social security relations between the company and its employees are based on the provisions of the Labour Code (LC), the Company's Collective Labour Agreement (CLA) and the effective social security legislation.

Short-term employee benefits in the form of salaries, bonuses and social payments and benefits (payable within 12 months after the end of the period in which the employees have performed their work or have met the required terms and conditions) are recognized as expenses in the statement of comprehensive income in the period when the relevant work has been performed or the requirements for their receipt have been met. The company's obligations to make social security and health insurance contributions are recognized as current expenses and obligation, together with the corresponding income to which they are related.

As on the date of each financial report, the company assesses the estimated costs of the accumulating compensated leaves, which amount is expected to be paid as a result of the unused entitlement. The assessment includes the undiscounted estimate of the expenses for the employee's remunerations and the statutory social security contributions owed by the employer thereon.

In accordance with the requirements of the *Labor Code* the Company is obliged to pay to its personnel upon retirement an indemnity which depending on the length of service with the company may vary from 2 to 6 gross monthly salaries as at the termination date of the employment. In their nature, these are defined benefit schemes.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to assess their present value as at the date of the financial statements, at which to report them in the balance sheet and the change of their value - in the statement of the comprehensive income, respectively.

2.15 Share Capital and Reserves

Being a joint-stock company, *Yuri Gagarin Plc* is obliged to register in the Commercial Register a certain amount of share capital, which amount should serve as collateral to the creditors of the company against execution of their receivables. The shareholders are liable for the obligations of the company only up to the amount of the share of the capital held by each of them and may claim refunding of this share only in case of insolvency and liquidation. The company reports its share capital at nominal value of shares registered with the Court.

Under the requirements of the Commerce Act and the Company's By-laws, the company is obliged to set up also a Reserve Fund (statutory reserve) by using the following sources:

- at least one tenth of the profit, which should be allocated to the Fund until its amount reaches one tenth of the share capital or any larger amount, as may be decided by the General Meeting of Shareholders;
- any premium received in excess of the nominal value of shares upon their issue (share premium reserve);
- other sources provided for by a decision of the Shareholders' General Meeting.

The amounts in the statutory reserve can only be used to cover current year loss or losses from previous years. When the amount of the Fund reaches the minimal value, the excess may be used for increasing the share capital.

The revaluation reserve is created from the positive difference between the revalued carrying amount of property, plant and equipment and their fair value. The deferred taxes effect on the revaluation reserve is directly charged to this reserve. The revaluation reserve is transferred to *accumulated profits* when the assets are fully depreciated or written-off.

2.16 Income Taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – Corporate Income Taxation Act (CITA).

Deferred income taxes are determined using the balance liability method on all temporary differences existing as at the date of the financial statements between the carrying amount of the particular assets and liabilities and their tax bases.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses, to the extent to which it is probable that they will reverse and a sufficient taxable profit will be generated or taxable temporary differences might occur, against which these deductible temporary differences can be utilized.

Deferred taxes related to items directly reported in the equity or other position of the balance sheet are also directly reported as part of the relevant capital component or balance sheet position.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the assets will be realized and the liabilities will be settled (paid), based on the tax laws currently effective or very likely to become effective.

2.17 Earnings per Share (EPS)

Basic earnings per share (EPS) are calculated by dividing the net profit or loss for the period, attributable to ordinary shareholders, by the weighted average number of ordinary shares held during the period.

2.18. Critical accounting rationale on applying the Company's accounting policies.

Actuarial calculations

In assessing the present value of long term retirement obligations, calculations of certified actuaries have been used based on assumptions for mortality rates, stuff turnover rates, future levels of salaries and a discount factor, which are considered by management as reasonable and appropriate for the company.

Expenses when operating at below normal capacity

When determining the nominal capacity of the company different lines of business are taken into consideration.

The company reports expenses relating to production below normal capacity in cases when a certain production has been fully discontinued or discontinued for a fixed time and the subtracted part of the contingent - fixed general overheads are directly recognized in the statement for comprehensive income as expenses as a result of production being below normal capacity.