

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
All amounts are presented in BGN'000 unless otherwise stated

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1. BACKGROUND CORPORATE INFORMATION

Neochim AD (the 'Company') was registered as a joint-stock company in July 1997. The Company was established in 1951. The initial court registration as a state company Neochim was made by virtue of a Decision of Haskovo District Court dated 2 April 1990. The Company's registered office and address of management is at 3, Himkombinatska Str., East Industrial Zone, Dimitrovgrad. The latest changes in the Articles of Association were entered in the Registry of Commercial Companies on 19 June 2009. The latest changes in the managing bodies were entered in the Commercial Registry on 15 March 2011.

1.1. Ownership and management

Neochim AD is a public company under the Public Offering of Securities Act.

The structure of Company's share capital as at 31 December 2010 is as follows:

• Eco Tech AD	- 27.42 %
• Evro Fert AD	- 23.83 %
• Karifert International Offshore S.A.L., Lebanon	- 17.16 %
• Agrofer International Establishment, Lichtenstein	- 7.68 %
• Neochim AD (treasury shares)	- 2.58 %
• UPF CCB Sila	- 2.19 %
• Other	- 19.14 %

Neochim AD has one-tier management system with nine-member Board of Directors as follows:

Dimcho Staikov Georgiev	Chairman
Mohamed Hasan Mohamad Karabibar	Deputy Chairman
Dimitar Stefanov Dimitrov	Member
Tosho Ivanov Dimov	Member
Vasil Jivkov Grancharov	Member
Djamal Ahmad Hamud	Member
Victoria Ilieva Cenova	Member
Elena Simeonova Shopova	Member
Chimimport Group EAD	Member

The Company is represented and managed by Dimitar Stefanov Dimitrov – Chief Executive Director, Vasil Jivkov Grancharov – Executive Director and Tosho Ivanov Dimov – Executive Director (as from 9 March 2011).

As at 31 December 2010, the Company's personnel totals 1,150 workers and employees (31 December 2009: 1,205).

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1. BACKGROUND CORPORATE INFORMATION (CONTINUED)

1.2. Principal activities

The principal activities of the Company include the following types of transactions and deals:

- production of inorganic and organic chemical products;
- trade.

1.3. Main indicators of the economic environment

The main economic indicators of the business environment that have affected the Company's activities throughout the period 2008 - 2010, are presented in the table below:

Indicator	2008	2009	2010
GDP in million levs	66,728	66,256	50,644 *
Actual growth of GDP	6.00%	-5.00%	-0.80% *
Year-end inflation	7.80%	0.6%	4.3%
Average exchange rate of USD for the year	1.3368	1.4055	1.4779
Exchange rate of the USD at the year-end	1.3873	1.3641	1.4728
Unemployment rate at the year-end	6.27%	9.13%	9.24%
Basic interest rate at the year-end	5.77%	0.55%	0.18%

Source: BNB.

** Data as at 30 September 2010*

2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES

2.1. Basis for preparation of the separate financial statements

These financial statements have been prepared in all material respects in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations for their application issued by the International Financial Reporting Interpretations Committee (IFRIC), accepted by the European Union (EU) and applicable in the Republic of Bulgaria.

Amendments in IFRS

Standards and interpretations that have become effective in the current reporting period

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

- IFRS 1 (revised) First-time Adoption of IFRS, endorsed by EU on 25 November 2009 (in force for annual financial periods beginning on or after 1 January 2010);

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

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

- IFRS 3 (revised) Business Combinations, endorsed by EU on 3 June 2009 (in force for annual financial periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – additional exemptions for first-time adopters of IFRS, endorsed by EC on 23 June 2010 (in force for annual financial periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 Share-based Payments – group cash-settled share-based payment transactions, endorsed by EC on 23 March 2010 (in force for annual financial periods beginning on or after 1 January 2010);
- Amendments to IAS 27 Consolidated and Separate Financial Statements, endorsed by EU on 3 June 2009 (in force for annual financial periods beginning on or after 1 July 2009);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – regarding eligible hedged items, endorsed by EU on 15 September 2009 (in force for annual financial periods beginning on or after 1 July 2009);
- Amendments to a number of standards and interpretations IFRS Improvements (2009), resultant from the annual project for IFRS improvements, published on 16 April 2009, endorsed by EU on 23 March 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), intended mainly to remove the existing inconsistency and clarifying the formulation, endorsed by EU on 23 March 2010 (in force for annual financial periods beginning on or after 1 January 2010);
- IFRIC 12 Service Concession Arrangements, endorsed by EU on 25 March 2009 (in force for annual financial periods beginning on or after 30 March 2009);
- IFRIC 15 Agreements for Construction of Real Estates, endorsed by EU on 22 July 2009 (in force for annual financial periods beginning on or after 1 January 2010);
- IFRIC 16 Hedges of a Net Investment in Foreign Operation, endorsed by EU on 4 June 2009 (in force for annual financial periods beginning on or after 1 July 2009);
- IFRIC 17 Distribution of Non-cash Assets to Owners, endorsed by EU on 26 November 2009 (in force for annual financial periods beginning on or after 1 November 2009);
- IFRIC 18 Transfers of Assets from Customers, endorsed by EU on 27 November 2009 (in force for annual financial periods beginning on or after 1 November 2009).

The adoption of these amendments to the existing standards has not resulted in changes in Company's accounting policy.

Standards and interpretations, issued by IASB and endorsed by EU, but not yet in force

The following IFRS, amendments to IFRS and interpretations were endorsed by EU but not yet in force at the date of approval of the current financial statements:

- Amendments to IAS 24 Related Party Disclosures – simplifying disclosure requirements for government entities and clarifying the definition for a related party, endorsed by EU on 19 July 2010 (in force for annual financial periods beginning on or after 1 January 2011);

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

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

- Amendments to IAS 32 Financial Instruments: Presentation – accounting for issued rights, endorsed by EU on 23 December 2009 (in force for annual financial periods beginning on or after 1 February 2010);
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – limited exemptions from disclosure of comparative data under IFRS 7 for first-time adopters of IFRS, endorsed by EC on 30 June 2010 (in force for annual financial periods beginning on or after 1 July 2010);
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – prepayment of minimum funding requirement, endorsed by EU on 19 July 2010 (in force for annual financial periods beginning on or after 1 January 2011);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, endorsed by EU on 23 July 2010 (in force for annual financial periods beginning on or after 1 July 2010).

The Company has chosen to not adopt these standards, amendments and interpretations before their effective date. The Company expects that the adoption of these standards, amendments and interpretations would not impact materially its financial statements in the period of their initial application.

Standards and interpretations, issued by IASB, but not yet endorsed by EU

At the date of approval of these financial statements, the IFRS endorsed by EU do not differ materially from those approved by IASB except for the following standards, amendments to existing standards and interpretations, not yet endorsed by EU:

- IFRS 9 Financial Instruments (in force for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - severe hyperinflation and removal of fixed dates for first-time adopters of IFRS (in force for annual periods beginning on or after 1 July 2011);
- Amendments of IFRS 7 Financial Instruments: Disclosures – transfer of financial assets (in force for annual financial periods beginning on or after 1 July 2011);
- Amendments to IAS 12 Income Taxes – deferred taxes: recovery of underlying assets (in force for annual financial periods beginning on or after 1 January 2012);
- Amendments to various standards and interpretations IFRS Improvements (2010) resulting from the annual project for IFRS improvements, published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) intended mainly to remove the existing inconsistency and clarifying the formulation (most amendments are applicable for annual financial periods beginning on or after 1 January 2011).

The Company expects that the adoption of these standards, amendments to existing standards and interpretations would not affect materially Company's financial statements in the period of their initial application except for the application of the following standards:

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

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

- IFRS 9 Financial Instruments, which uses a method for defining whether a financial asset is measured at amortised cost or at fair value thus replacing the multiple variety of rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (the business model) and the specific cash flows for the financial assets. The new standard requires also the use of a single method for impairment replacing the various methods in IAS 39. The amendments to the new standard would have an impact on the accounting policy and the value and classification of assets, liabilities, transactions and performance results of the Company with regard to its investments in subsidiaries.
- IFRS 3 (revised) Business Combinations and the related thereto changes in IAS 27, IAS 28, IAS 31, IAS 21 and IFRS 7, in force for annual financial periods beginning on or after 1 July 2009. The management has taken a decision and has applied the amendments to these standards for 2010 prospectively and they affect primarily the future transactions on acquisitions and loss of control in subsidiary, associate and joint companies.

At the same time the accounting for hedges, referring to the portfolio of financial assets and liabilities whose principles have not been endorsed by the EU yet, is still not regulated.

According to the judgment of the Company, the adoption of accounting for hedging of portfolios of financial assets and liabilities in accordance with IAS 39 Financial instruments: Recognition and Measurement, would not affect materially the financial statements is applied at the reporting date.

These separate financial statements have been prepared on a going concern basis, and in accordance with the current accrual and historical cost concepts.

2.2. Consolidated financial statements of the Company

These financial statements represent the separate financial statements prepared in accordance with the requirements of the accounting and tax legislation of the Republic of Bulgaria. The Company has interest and exercises control over two subsidiaries (see Note 14) and therefore, in accordance with the requirements of the Bulgarian Accountancy Act and based on IAS 27 Consolidated and Separate Financial Statements it has also prepared consolidated financial statements approved for issue by the Board of Directors on 24 March 2011.

2.3 Accounting assumptions and estimates

The presentation of financial statements in accordance with International Financial Reporting Standards requires the management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the financial statements, and therefore, the future actual results might be different from them (whereas in the conditions of financial crisis the uncertainties are more significant). The items presuming a higher level of subjective assessment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed in Note 2.27.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.4. Comparatives

The accompanying financial statements of the Company include comparative information for one prior year.

Where necessary, comparative data is reclassified in order to achieve comparability in view of the current year presentation changes.

2.5. Functional currency and recognition of exchange differences

Functional currency is the currency of the main economic environment in which a company operates and where cash is mostly generated and expensed. It reflects the basic transactions, events and conditions, which are significant for the entity.

The Company keeps its accounting records and prepares its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian lev, adopted by the Company as its functional currency.

Net foreign exchange differences related to cash, trade receivables and payables, denominated in foreign currency, are recognised in the statement of comprehensive income (within profit or loss for the year) when they arise and are presented net under 'other operating income/(losses)'.

The non-monetary items in the statement of financial position, which are initially denominated in a foreign currency, are accounted for in the functional currency by applying the historical exchange rate at the date of the transaction and are not subsequently re-valued at the closing exchange rate.

These separate financial statements are prepared in hundred levs.

2.6. Revenue

Revenue is recognised on accrual basis and to the extent that it is probable that the economic benefits will flow to the Company and as far as the revenue can be reliably measured.

Upon sale of finished products, goods and materials, revenue is recognised when all significant risks and rewards of ownership have passed to the buyer.

Upon rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the date of the statement of financial position, if this stage as well as the transaction and completion costs, can be measured reliably.

Revenue is measured on the basis of the fair value of the products, goods and services sold, net of indirect taxes (excise duties and VAT) and any discounts and rebates granted.

Upon sale on an instalment plan, revenue is recognised on the date of sale, excluding the incorporated interest.

Finance income is presented separately in the statement of comprehensive income (within profit or loss for the year) and comprises interest income on placed deposits and gains from transactions with financial instruments.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.7. Expenses

Expenses are recognised by the Company as they are incurred, following the accrual and matching concepts but only as far as the latter does not result in recognising reporting items for assets or liabilities that do not satisfy the criteria of IFRS and the framework thereto.

Deferred expenses are put off and recognised as current expenses in the period when the contracts, whereto they refer, are performed.

Finance costs are included in the statement of comprehensive income when incurred and comprise: interest expenses related to received loans as well as bank charges and other direct expenses on loans and bank guarantees and exchange differences from foreign currency loans.

2.8. Property, plant and equipment

Property, plant and equipment (tangible fixed assets) are presented in the financial statements at cost (cost of acquisition) less the accumulated depreciation (excluding land) and any impairment losses in value.

Initial acquisition

Upon their initial acquisition, property, plant and equipment are valued at cost, which comprises the purchase price, customs duties and any other directly attributable costs of bringing the asset to working condition for its intended use. The directly attributable costs include the cost of site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, expenses on capitalised interest for qualifying assets, etc.

The Company has set a value threshold of BGN 500, below which the acquired assets, regardless of having the features of property, plant and equipment, are treated as current expense at the moment of their acquisition.

Subsequent measurement

The chosen by the Company approach for subsequent measurement of property, plant and equipment, is the cost model under IAS 16, i.e. cost less any accumulated depreciation and any accumulated impairment losses in value.

Depreciation methods

The Company applies the straight-line depreciation method for property, plant and equipment. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life per group of assets is subject to their physical wear, the characteristic features of the equipment, the intentions for future use and the expected obsolescence.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.8. Property, plant and equipment (continued)

The determined useful life per group of assets is as follows:

- buildings – from 10 to 57 years;
- machinery and equipment, depending on their specific characteristics – from 2 to 25 years;
- installations – from 8 to 25 years;
- computers – from 2 to 5 years;
- • motor vehicles – from 3 to 12.5 years;
- furniture and fixtures – from 2 to 6.7 years.

The useful life, set for any tangible fixed asset, is reviewed at the end of each reporting period and in case of any material deviation from the future expectations of their period of use, the latter is adjusted as from the date of change.

Subsequent costs

Repair and maintenance costs are recognised as current expenses as incurred. Subsequent expenses incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalised in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of restructure.

Impairment of assets

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount might significantly differ from their recoverable amount. If any indications exist that the estimated recoverable amount of an asset is lower than its carrying amount, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property, plant and equipment is the higher of fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the statement of comprehensive income (within profit or loss for the year).

Gains and losses on disposal (sale)

Tangible fixed assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of property, plant and equipment are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.9. Intangible assets

Intangible assets are stated in the separate financial statements at cost less accumulated amortisation and any impairment losses in value. They include licences for the use of software and EU emissions trading scheme and units of reduced emissions.

The Company applies the straight-line amortisation method for the intangible assets with determined useful life of 5 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in the circumstances indicate that the carrying amount might exceed their recoverable amount. Then impairment is recognised as an expense in the statement of comprehensive income (within profit or loss for the year).

Intangible assets are derecognised from the statement of financial position when they are permanently disposed of and no future economic benefits are expected therefrom or on sale. The gains or losses arising from the sale of an item of intangible assets are determined as the difference between the consideration received and the carrying amount of the asset at the date of sale. They are stated net under 'other operating income/(losses), net' in the statement of comprehensive income (within profit or loss for the year).

EU emissions trading scheme and units of reduced emissions

On initial acquisition the allocated quotas for dangerous gases are recognised as intangible assets at nominal value (zero value). The purchased quotas are recognised on initial acquisition at cost. The Company recognises a liability in the statement of financial position when the level of noxious gases for a period exceeds the level of allocated and available quotas. The liability is measured at the acquisition cost of purchased quotas - until reaching the level of the quotas held by the Company, and at market price at the date of the statement of financial position – for the excess over the available quotas whereas the changes in the liability amount are recognised in the statement of comprehensive income (within the profit or loss for the year).

2.10. Investments in subsidiaries

Long-term investments, representing interest in subsidiaries are presented in the financial statements at acquisition cost (cost) being the fair value of the consideration paid. Investments in subsidiaries are not traded in the stock exchange. This circumstance does not provide opportunity for ensuring active market price quotations in order to determine reliably the fair value of these shares. In addition, the future functioning of a part of these companies is related to some uncertainties that affect the ability of making reasonable and justified long-term assumptions for the fair value calculation of their shares through other valuation methods.

The investments in subsidiaries, owned by the Company, are subject to review for impairment. Where conditions for impairment are identified, the impairment is recognised in the statement of comprehensive income (within profit or loss for the year).

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.10. Investments in subsidiaries (continued)

In purchases and sales of investments in subsidiaries the date of trading (conclusion of the deal) is applied.

Investments are derecognised when the rights related thereto are transferred to third parties as a result of occurrence of legal rights for that and thus the control over the economic benefits from the investments are being lost. The gains or losses on the sale are presented respectively as 'finance income' or 'finance costs' in the statement of comprehensive income (within profit or loss for the year).

2.11. Available-for-sale investments

The Company's investments, representing shares in other companies (minority interest), are measured and included in the statement of financial position at cost since their shares are not traded on an active market, no active market price quotations are available thereof and the assumptions for the application of alternative valuation methods are highly uncertain so as to achieve a sufficiently reliable fair value determination.

The available-for-sale securities, owned by the Company, are reviewed for impairment at each statement of financial position date. If any such conditions are identified, the impairment is reported in the statement of comprehensive income (within profit or loss for the year). Available-for-sale investments are impaired if their carrying amount is higher than the expected recoverable amount. The recognised impairment loss is equal to the difference between the acquisition cost less the principal repayments and their recoverable amount, which is the present value of the expected future cash flows, discounted with the current interest rate for a similar financial asset.

Any purchase or sale of available-for-sale securities is recognised on the date of trading, i.e. the date when the Company undertakes the commitment to buy or sell the asset.

2.12. Inventories

Inventories are valued at the lower of acquisition cost (cost) and net realisable value.

Expenses, incurred at bringing a certain product to its current condition and location, are included in the cost (acquisition cost) as follows:

- Raw and other materials in finished form – all delivery costs, including the purchase price, import customs duties and charges, transportation expenses, non-refundable taxes and other expenses, incurred for rendering the materials ready for usage;
- Finished products and work in progress – cost of direct materials and labour and the attributable proportion of the manufacturing overheads, based on normal operating capacity of production facilities, but excluding administrative expenses, exchange rate gains and losses and borrowing costs.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.12. Inventories (continued)

Production overheads are included in the cost of finished and semi-finished products based on normal operating capacity of the production facilities. The Company has chosen to allocate them to products on the basis of the quantity of articles produced.

Upon putting into production (sale) of inventories, the Company applies the weighted average cost method.

The net realisable value represents the estimated selling price of an asset in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

2.13. Trade and other receivables

Trade receivables are recognised and carried at fair value based on the original invoice amount (cost) less any allowance for uncollectable debts. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the receivables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.25).

An estimate of allowances for doubtful and bad debts is made when significant uncertainty exists as to the collection of the full amount or a part of it. Bad debts are written-off when the legal grounds for this are available. Impairment of trade receivables is being accrued through a respective corresponding allowance account for each type of receivable in the item 'impairment of assets' in the statement of comprehensive income (within profit or loss for the year). When a trade receivable is considered uncollectible, it is written-off against the allowance account.

2.14. Cash and cash equivalents

Cash and cash equivalents include cash in hand, current accounts and short-term deposits with banks, with original maturity of less than three months (Note 2.25).

For the purposes of the statement of cash flows:

- cash proceeds from customers and cash paid to suppliers are presented at gross amount, including value added tax (20%);
- interest on loans received for working capital is included as payment in the operating activities;
- interest on investment purpose loans received is included as payment in the financing activities;
- permanently blocked funds are not treated as cash and are not included in the cash flow statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.15. Trade and other payables

Trade and other current amounts payable are carried at fair value on the basis of the original invoice amount (acquisition cost), which is the fair value of the consideration to be paid in the future for assets and services received. In case of payments deferred over a period exceeding the common credit terms, where no additional interest payment has been envisaged or the interest considerably differs from the common market interest rates, the payables are initially valued at their fair value and subsequently – at amortised cost, after deducting the interest incorporated in their nominal value and determined following the effective interest rate method (Note 2.25).

2.16. Interest-bearing loans and other borrowings

All loans and other borrowings are recognised at cost (nominal amount), which is accepted to be the fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured at amortised cost by applying the effective interest rate method. The amortised cost is calculated by taking into account all types of charges, commissions and other costs, including any discount or premium on settlement associated with these loans. Gains and losses are recognised in the statement of comprehensive income (within profit or loss for the year) as finance income or costs throughout the amortisation period, or when the liabilities are derecognised or reduced.

Interest-bearing loans and other financial resources granted are classified as current ones unless (and for the relevant portion thereof) the Company has unconditionally the right to settle its obligation within 12 months after the statement of financial position date (Note 2.25).

2.17. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. According to the requirements of IAS 23 *Borrowing Costs*, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The amount of borrowing costs eligible for capitalisation to the value of a qualifying asset is determined by applying a capitalisation rate. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The capitalization of borrowing costs as part of the cost of a qualifying asset begins when the following conditions are met:

- expenditures for the asset are incurred;
- borrowing costs are incurred; and
- activities are undertaken that are necessary to prepare the asset for its intended use or sale.

Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.17. Borrowing costs (continued)

Borrowing costs are reduced by any payments received or grants received in connection with the asset. Borrowing costs are also reduced by any investment income earned on the temporary investment of those borrowed funds.

2.18. Leases

Finance lease

Lessee

Finance leases, which transfer to the Company a substantial part of all risks and rewards incidental to ownership of the leased asset, are capitalised in the statement of financial position of the lessee and are presented as leased item of property, plant and equipment at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The lease payments are apportioned between the finance cost (interest) and the attributable portion (reduction) of the lease liability (principal) so as to achieve a consistent interest rate on the remaining outstanding principal balance of the lease liability. Interest expenses are recognised in the statement of comprehensive income (within profit or loss for the year).

The finance lease gives rise to depreciable cost for depreciated assets as well as finance costs for each reporting period. The depreciation policy with regard to depreciable leased assets is compliant with that for Company's own depreciable assets. Where there is no sufficient assurance that the ownership will be acquired by the end of the lease term the asset is depreciated over the shorter of the term of the lease agreement and the useful life of the asset.

Operating lease

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

Operating lease payments are recognised as expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

Lease income from operating leases is recognised on a straight-line basis over the lease term in the statement of comprehensive income (within profit or loss for the year). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)**2.19. Employee benefits**

In accordance with the Bulgarian legislation, the Company is obliged to pay contributions to social security health insurance funds. The employment relations with the workers and employees of the Company, in its capacity of an employer, are based on the provisions of the Labour Code and the Collective Labour Agreement.

The employer's major duty is to make the mandatory social security contributions for the hired employees to the Pensions Fund, Supplementary Mandatory Pension Security (SMPS) to an Universal Pensions Fund (UPF) (for persons born after 31 December 1959), to the General Diseases and Maternity (GDM) Fund, the Unemployment Fund, the Labour Accident and Professional Diseases (LAPD) Fund, the Guaranteed Receivables of Workers and Employees (GRWE) Fund and for health insurance. The individuals working under the terms of the second category of employment are subject to also SMPS to a Professional Pensions Fund (PPF) entirely at employer's account.

The rates of the mandatory social security contribution and the ratio at which they shall be apportioned between an employer and an employee are provided for in the Social Security Code (SSC). In addition, the State Social Security Budget Act for the respective year regulates the levels of minimum and maximum monthly insurance income, the contribution rate for GRWE and the differentiated rates of the contribution of LAPD. The rate of the mandatory health insurance contribution is provided for by the National Health Insurance Fund Budget Act for the respective year while the ratio at which it shall be apportioned between an employer and an employee is defined in the Health Insurance Act (HIA). The total amount of the contribution to the Pensions Fund, SMPS to UPF/PPF, GDM Fund, Unemployment Fund and for health insurance in 2009, 2010 and 2011 for the individuals working under the terms of second and third category of employment, to which the Company's employees belong, is as follows:

- for the period 1 January 2009 – 31 December 2009:

- for individuals working under the terms of the second category of employment: 40.5% (27.5% of them being at employer's account);
- for individuals working under the terms of the third category of employment: 30.5% (17.5% of them being at employer's account);

- for the period 1 January 2010 – 31 December 2010:

- for individuals working under the terms of the second category of employment: 38.5% (26.4% of them being at employer's account);
- for individuals working under the terms of the third category of employment: 28.5% (16.4% of them being at employer's account);

- for the period 1 January 2011 – 31 December 2011:

- for individuals working under the terms of the second category of employment: 40.3% (27.4% of them being at employer's account);
- for individuals working under the terms of the third category of employment: 30.3% (17.4% of them being at employer's account).

In addition, entirely at its own account, the employer pays a contribution to the Guaranteed Receivables of Workers and Employees (GRWE) Fund at the rate of 0.1% (for years 2009 and 2010, and no contribution is due for year 2011) as well as a contribution to the Labour Accident and Professional Diseases (LAPD) Fund, which is differentiated for the various entities - from 0.4% to 1.1% - depending on the business activities of the entity (in accordance with an Appendix to the State Social Security Budget Act for the respective year). This contribution for the Company is 0.7 % (for years 2009 and 2010) and 0.9% for year 2011).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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2. BASIS FOR THE PREPARATION OF SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.19. Employee benefits (continued)

The social security and pension plans, applied by the Company in its capacity of an employer, are based on the Bulgarian legislation and are defined contributions plans. Under these plans, the employer pays monthly contributions to the government funds as follows: Pensions Fund, GDM Fund, Unemployment Fund, LAPD Fund, GRWE Fund as well as for supplementary mandatory pension security (universal and professional pension funds) – on the basis of rates fixed by law (as stated above), and has no other legal or constructive obligation to pay any additional amounts to the funds in the future. The obligations referring to health insurance are analogous.

There is no established and functioning private voluntary social security scheme at the Company.

Short-term benefits

Short-term employee benefits in the form of remunerations, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or has met the required terms and requirements) are recognised as an expense in the statement of comprehensive income (within profit or loss for the year) in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Company's obligations for social security and health insurance are recognised as a current expense and liability at their undiscounted amount together with the relevant benefits and within the period of the respective income to which they are related.

At the date of each set of annual financial statements, the Company measures the estimated costs on the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated expenses on the employee's remunerations and the statutory social security contributions due by the employer thereon.

Long-term retirement benefits

In accordance with the requirements of the Labour Code and the Collective Labour Agreement of the Company, the employer is obliged to pay to its personnel upon retirement an indemnity, which depending on the length of service with the Company varies between two and six 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 necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are included in the statement of financial position, adjusted with the amount of the unrecognised actuarial gains and losses, and respectively, the change in their value including the recognised actuarial gains and losses is included in the statement of comprehensive income (within profit or loss for the year).

At the date of issue of each set of annual financial statements, the Company assigns actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method.

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2. BASIS FOR THE PREPARATION OF SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.19. Employee benefits (continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using the interest rates of long-term government bonds, denominated in Bulgarian levs.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. One-fifth of the actuarial gains and losses, representing the excess that falls outside the 10% corridor at the statement of financial position date, is recognised currently in the statement of comprehensive income (within profit or loss for the year).

Termination benefits

The Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

2.20. Share capital and reserves

Neochim AD is a joint-stock company and is obliged to register with the Commercial Register a specified share capital, which should serve as a security for the creditors of the Company for execution of their receivables. The shareholders are liable for the obligations of the Company up to the amount of the share of the capital held by each of them and may claim returning of this share only in liquidation or bankruptcy proceedings.

According to the requirements of the Commercial Act and the Articles of Association, the Company is obliged to set aside a Reserve Fund (statutory reserves) 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 provided in the Articles of Association;
- other sources as provided for by a decision of the General Meeting.

The amounts in the fund can only be used to cover annual loss or losses from previous years. When the amount of the Fund reaches the minimal value specified in the Articles of Association the excess may be used for increasing the share capital.

Treasury shares are presented in the statement of financial position at cost (acquisition cost) whereas the Company's equity is decreased with the gross amount of treasury shares.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.21. Income taxes

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act. The nominal income tax rate for year 2010 is 10% (2009: 10%).

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

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those originating from recognition of an asset or liability, which has not affected the accounting and the taxable profit/(loss) as at the date of the transaction.

Deferred tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax losses, to the extent that it is probable they will reverse and a taxable profit will be available or taxable temporary differences might occur, against which these deductible temporary differences can be utilized, with the exception of the differences arising from the initial recognition of an asset or liability, which has affected neither the accounting nor taxable profit or loss as at the date of the transaction.

The carrying amount of all deferred tax assets is reviewed on the preparation of the statement of financial position and reduced to the extent that it is no longer probable that they will reverse and sufficient taxable profit to be generated or occurring in the same period taxable temporary differences to allow the deferred tax asset to be deducted or compensated.

Deferred taxes, related to items that are other components of comprehensive income or are directly credited or charged to equity or other item of the statement of financial position, are also reported directly in the respective comprehensive income or equity component or item of the statement of financial position.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the asset will be realised or the liability will be settled (paid), based on the tax laws that are enacted or substantively enacted. The tax rate applied as at 31 December 2010 is 10% (31 December 2009: 10%).

2.22. Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding during at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. This factor represents the number of days that the shares are outstanding as a proportion of the total number of days in the period.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.22. Earnings per share (continued)

In case of a capitalization, additional issue or split, the number of the outstanding ordinary shares as at the date of such event, is adjusted as to reflect the proportional change in the number of outstanding ordinary shares as if the event has occurred in the beginning of the earliest presented period.

Diluted earnings per share are not calculated because no dilutive potential ordinary shares have been issued.

2.23. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation. The measurement of provisions is based on the best estimate, made by the management at the date of the statement of financial position, concerning the expenses that will be incurred for the settlement of the particular obligation. The estimate is discounted if the obligation is long-term. When part the resources required to settle the obligation are expected to be recovered from a third party, the Company recognises a receivable if it is virtually certain that reimbursement will be received, its amount can be reliably measured and income is recognised in the same item of the statement of comprehensive income (within profit or loss for the year) where the provision itself is presented.

2.24. Grant from public institutions

A grant from public institutions is initially recognised as deferred income (financing) when there is reasonable assurance that it will be received by the Company and that the latter has complied and complies with the associated thereto requirements.

A grant from public institutions that compensates the Company for expenses incurred is recognised in current profit or loss on a systematic basis in the same period in which the expenses are recognised.

A grant from public institutions that compensates investment expenses incurred to acquire an asset is recognised in current profit or loss on a systematic basis over the useful life of the asset usually at the amount of the recognised depreciation charge.

2.25. Financial instruments

2.25.1. Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale assets. The classification depends on the nature and purpose (designation) of the financial assets at the date of their acquisition. The management determines the classification of the financial assets of the Company at the time of their initial recognition on the statement of financial position.

The Company usually recognises its financial assets on the statement of financial position on the trade date, being the date on which the Company commits (undertakes an ultimate engagement) to purchase the respective financial assets. All financial assets are initially measured at their fair value plus the directly attributable transaction costs except for the assets at fair value through profit or loss. The latter are recognised at fair value while the directly attributable transaction costs are recognised immediately in the statement of comprehensive income (within profit or loss for the year).

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.25. Financial instruments (continued)

2.25.1. Financial assets (continued)

Financial assets are derecognised from the Company's statement of financial position when the rights to receive cash (flows) from these assets have expired or have been transferred, and the Company has transferred substantially all the risks and rewards of ownership of the asset to another entity (person). If the Company retains substantially all risks and rewards associated with the ownership of a particular transferred financial asset, it continues to recognise the transferred asset on its statement of financial position but also recognises a secured liability (a loan) for the consideration received (Notes 2.13 and 2.14).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured in the statement of financial position at their amortised cost using the effective interest method less any allowance for impairment. These assets are included in current assets when having maturity within 12 months or within a common operating cycle of the Company while the remaining ones are classified as non-current assets. This group of financial assets includes: loans granted, trade receivables, other receivables from counterparts and third parties, cash and cash equivalents from the statement of financial position. Interest income on loans and receivables is recognised by applying the effective interest rate except for short-term receivables (less than 12 months) where the recognition of such income would be unjustifiable as immaterial and within the common credit terms. It is presented in the statement of comprehensive income (within profit or loss for the year) under 'other operating income'.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either designated as available-for-sale or are not classified in any other category. These are usually unlisted or not actively traded shares, or shares in other companies, acquired for investment purposes, and are included within non-current assets, except where the Company intends to sell them in the following 12 months and is actively searching for a buyer.

Available-for-sale financial assets are measured at acquisition cost because they are in closed-end companies for which it is difficult to find analogous market transactions data or due to the circumstance that the future operation of these companies is related to certain doubts so that reasonable and justifiable long-term assumptions are possible for the calculation of the fair value of their shares through other alternative valuation methods.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the statement of comprehensive income (within profit or loss for the year) when the Company's right to receive the dividends is established.

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.25. Financial instruments (continued)

2.25.2. Financial liabilities and equity instruments

The Company classifies debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments.

Financial liabilities

Financial liabilities include loans and payables to suppliers and other counterparts. They are initially recognised in the statement of financial position at fair value net of the directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method (Note 2.15).

2.26. Segment reporting

A reporting segment is a distinguishable component of the Company that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the Company), whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assesses its performance, and for which discrete financial information is available. The Company has a single reporting segment.

2.27. Critical accounting judgments on applying the Company's accounting policies. Key estimates and assumptions of high uncertainty.

Recognition and evaluation of provisions

The Company has recognised a provision for closing-down of industrial waste repositories and for recultivation of the terrain based on the simultaneous existence of:

- legal obligation by virtue of Ordinance No. 8 of 24 September 2004 of the Minister of Environment and Water (MEW) on the conditions and requirements for the construction and functioning of depots and other equipment and installations for waste recovery and disposal; and
- plan for rendering the repository in line with the legal requirements, which has been approved in terms of types of activities and terms and forecasted values by the Ministry of Environment and Water in accordance with the requirements of the above Ordinance.

In order to determine the amount of the provision, the Company has assigned certified experts-ecologists to prepare an estimate of costs by type of activity necessary for the execution of the obligation and to issue a special purpose report and a budget account. The amounts, expected to be utilised over a period longer than one year, are discounted by applying a discount factor set to 7.16% (Note 25).

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2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES (CONTINUED)

2.27. Critical accounting judgments on applying the Company's accounting policies. Key estimates and assumptions of high uncertainty (continued)

Recognition of tax assets

The Company's management has judged that, at the date of issue of these financial assets and based on the budgeted positive results for the following years, within the period (5 years) defined in the Bulgarian Corporate Income Taxation Act for tax losses carry forward, it will be able to generate sufficient taxable profit for deducting the tax losses for 2009 and 2010 amounting to BGN 14,187 thousand. Therefore, it has taken a decision to recognise deferred tax assets in the separate financial statements for 2010 at the amount of BGN 1,419 thousand.

3. REVENUE

	<u>2010</u>	<u>2009</u>
Domestic market sales	83,726	86,915
Export	72,633	8,570
	<u>156,359</u>	<u>95,485</u>

Sales by product – domestic market

	<u>2010</u>	<u>2009</u>
Ammonium Nitrate – EC Fertilizer	78,068	79,709
Royalty	1,057	1,472
Ammonia	952	1,818
Sodium Nitrate	530	384
Ammonia Water	520	387
NPK EC Fertilizer	507	720
Nitric Acid	450	308
KFS (Ureaformaldehyde Resin)	391	546
Nitrous Oxide	301	333
Formalin	237	302
Carbon Dioxide	176	391
Oxygen	144	112
Ammonium Hydrogencarbonate	136	169
Sodium Nitrite	104	68
Other	153	196
	<u>83,726</u>	<u>86,915</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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3. REVENUE (CONTINUED)

Sales by product – export for 2010 are as follows:

	Europe	North America	South America	Asia and Africa	Total
Ammonium Nitrate – EC Fertilizer	26,007	9,901	-	31,931	67,839
Ammonia	1,909	-	-	221	2,130
Sodium Nitrate	347	-	-	1,458	1,805
Ammonium Hydrogencarbonate	495	-	-	255	750
Carbon Dioxide	95	-	-	-	95
NPK	14	-	-	-	14
	28,867	9,901	-	33,865	72,633

Sales by product – export for 2009 are as follows:

	Europe	North America	South America	Asia and Africa	Total
Ammonium Nitrate – EC Fertilizer	1,017	-	-	5,451	6,468
Ammonia	1,176	-	-	-	1,176
Sodium Nitrate	33	-	-	379	412
Carbon Dioxide	63	-	-	-	63
Ammonium Hydrogencarbonate	229	-	-	222	451
	2,518	-	-	6,052	8,570

The Company receives royalties at the amount of BGN 1,057 thousand (2009: BGN 1,472 thousand) determined as a percentage of the profit of the main distributor Evro Fert AD for providing the exclusive right for sales of Ammonium Nitrate – fertilizer quality with the trade mark Neofert on the territory of the Republic of Bulgaria under an agreement of 1 September 2001.

Information on major clients

The total revenue from transaction with the largest clients of the Company are as follows:

	<u>2010</u>	<u>2009</u>
Client 1	81,051	87,162
Client 2	23,454	365
Client 3	21,054	13

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4. OTHER OPERATING INCOME AND LOSSES, NET

	<u>2010</u>	<u>2009</u>
Sales of goods	29	5,298
Cost of goods sold	<u>(25)</u>	<u>(4,974)</u>
<i>Gains on sales of goods</i>	<u>4</u>	<u>324</u>
Sales of materials	372	109
Cost of materials sold	<u>(226)</u>	<u>(76)</u>
<i>Gains on disposal of materials</i>	<u>146</u>	<u>33</u>
Sales of PPE	462	480
Carrying amount of PPE sold	<u>(446)</u>	<u>(458)</u>
<i>Gains on sales of PPE</i>	<u>16</u>	<u>22</u>
Foreign exchange gains	1,398	76
Sales of services	1,565	1,625
Reversal of impairment	338	459
Payments for rights over trademarks	120	120
Liquidation of PPE	109	25
Surpluses of assets	90	273
Fines and penalties income	27	6
Grant income	21	70
Written-off liabilities	1	7
Other	<u>124</u>	<u>121</u>
	<u>3,959</u>	<u>3,161</u>

Sales of goods generally represent re-sale of imported and locally produced articles, which are not manufactured by the Company in periods of planned repairs but have been agreed in advance as permanent deliveries to clients.

Gains on sales of goods include:

	<u>2010</u>	<u>2009</u>
Ammonium nitrate	3	290
Ammonia	-	30
Other	<u>1</u>	<u>4</u>
	<u>4</u>	<u>324</u>

Gains on sales of materials include:

	<u>2010</u>	<u>2009</u>
Metal scrap	93	4
Processed oil	18	7
Other	<u>35</u>	<u>22</u>
	<u>146</u>	<u>33</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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4. OTHER OPERATING INCOME AND LOSSES, NET (CONTINUED)

<i>Sales of services include:</i>	<u>2010</u>	<u>2009</u>
Manoeuvre services	856	863
Rental income	295	333
Transport services	119	142
Other	295	287
	<u>1,565</u>	<u>1,625</u>

5. RAW MATERIALS AND CONSUMABLES USED

<i>Expenses on materials include:</i>	<u>2010</u>	<u>2009</u>
Basic raw materials and consumables	108,535	76,959
Fuel and energy	9,856	8,139
Spare parts	942	789
Auxiliary materials	621	544
Other materials	344	423
	<u>120,298</u>	<u>86,854</u>

Basic raw materials and consumables include:

	<u>2010</u>	<u>2009</u>
Natural gas	100,863	70,130
Packaging	2,672	2,607
Calcinated soda	926	351
Magnesit	775	644
Perflow	350	165
Monoammonium phosphate	253	264
Carbamide	215	298
Sodium hydroxide	195	253
Novoflow	125	50
Sulphuric acid	72	87
Ammonia	67	360
Quicklime	52	49
Kalium chloride	50	70
Galoryl	34	5
Methanol	1	186
Monoethanolamine	-	193
Other raw materials and materials	1,885	1,247
	<u>108,535</u>	<u>76,959</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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6. HIRED SERVICES EXPENSE

	<u>2010</u>	<u>2009</u>
Transportation costs	3,143	637
Repairs of PPE	1,725	1,152
Freight	1,725	-
Security	1,194	1,192
Porters' and port costs	941	50
Insurance	761	580
Energy efficiency investigation for ammonia workshop	722	-
Taxes and charges	690	525
Subscribed servicing and technical control	356	372
Cleaning and planting	291	313
Membership fee for an European professional organisation	229	232
Bank charges	190	100
Consulting services	185	213
Rental on other assets	174	194
Maintenance of railway facilities	150	204
Railway tanks rentals	143	410
Communication costs	122	171
Shipping services	84	100
Recovery of packaging waste	83	127
Advertising	81	95
Training courses	31	42
Energy efficiency	15	409
Other services	363	483
	<u>13,398</u>	<u>7,601</u>

The accrued expenses for the year on statutory audit and other services related thereto amount to BGN 161 thousand (2009: BGN 175 thousand).

7. EMPLOYEE BENEFITS EXPENSE

<i>Personnel costs</i> include:	<u>2010</u>	<u>2009</u>
Remuneration	12,505	12,921
Social security/health insurance contributions	2,474	2,616
Food for personnel	924	1,292
Accruals for indemnity upon retirement	293	304
	<u>16,196</u>	<u>17,133</u>
<i>Remuneration</i> include:	<u>2010</u>	<u>2009</u>
Current salaries	12,569	13,043
Recovered amounts for unused paid leaves	(64)	(122)
	<u>12,505</u>	<u>12,921</u>
<i>Social security/health insurance contributions</i> include:	<u>2010</u>	<u>2009</u>
Social security/health insurance contributions	2,488	2,655
Recovered amounts for state social security on unused paid leaves	(14)	(39)
	<u>2,474</u>	<u>2,616</u>

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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8. IMPAIRMENT OF ASSETS

<i>Impairment of assets</i> is as follows:	<u>2010</u>	<u>2009</u>
Finished products	154	29
Materials	63	45
Receivables	3	14
PPE	-	1
	<u>220</u>	<u>89</u>

9. OTHER OPERATING EXPENSES

<i>Other operating expenses</i> include:	<u>2010</u>	<u>2009</u>
Indemnity under a civil case	454	-
Written-off PPA in progress	192	-
Carrying amount of PPE written-off	125	145
Business trips	92	137
Entertainment costs	80	68
Fines and penalties to suppliers	78	7
VAT	53	18
Pollution penalties	42	16
Materials and finished products scrapped	33	82
Donations	24	29
Scholarships	11	20
Awarded compensations	4	26
Exhibitions and fairs	3	10
Other	110	75
	<u>1,301</u>	<u>633</u>

The indemnity under a civil case at the amount of BGN 454 thousand was paid in relation to a decision of Plovdiv Court of Appeal, dated 22 April 2010, regarding remuneration for innovative invention used in Company's production.

10. FINANCE COSTS/INCOME, NET

	<u>2010</u>	<u>2009</u>
Interest expense	(1,725)	(1,058)
Interest income	5	204
	<u>(1,720)</u>	<u>(854)</u>

11. INCOME TAX BENEFIT

	<u>2010</u>	<u>2009</u>
<i>Statement of comprehensive income (profit or loss for the year)</i>		
Current income tax expense for the year	-	-
<i>Deferred income taxes</i>		
Related to occurrence and reversal of temporary differences	1,062	1,940
Total income tax benefit	<u>1,062</u>	<u>1,940</u>

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11. INCOME TAX BENEFIT (CONTINUED)***Reconciliation of income tax expense applicable to the accounting profit or loss***

	<u>2010</u>	<u>2009</u>
Accounting loss for the year	(10,842)	(19,789)
Income tax benefit – 10% (2009: 10%)	1,084	1,979
<i>Unrecognised amounts under tax return</i>		
Related to increases – BGN 234 thousand (2009: BGN 408 thousand)	(23)	(41)
Related to decreases – BGN 13 thousand (2009: BGN 14 thousand)	1	2
Total income tax benefit carried to the statement of comprehensive income (within profit or loss for the year)	<u>1,062</u>	<u>1,940</u>
Effective tax rate	<u>(9.80)%</u>	<u>(9.80)%</u>

12. LOSS PER SHARE

	<u>2010</u>	<u>2009</u>
Weighted average number of shares based on days	2,609,842	2,609,842
Loss for the year (BGN'000)	(9,780)	(17,849)
Loss per share (BGN)	(3.75)	(6.84)

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13. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	<i>Land and buildings</i>	<i>Machinery and equipment</i>	<i>Motor vehicles</i>	<i>Other</i>	<i>PPA and IA in progress</i>	<i>Total</i>	<i>Intangible assets</i>
Book value							
At 1 January 2009	22,949	87,767	6,089	963	9,947	127,715	659
Additions	-	-	648	-	7,245	7,893	15
Disposals	(501)	(333)	(213)	(13)	(16)	(1,076)	(2)
Transfers	1,577	5,475	-	70	(7,122)	-	-
31 December 2009	24,025	92,909	6,524	1,020	10,054	134,532	672
Additions	-	-	62	-	4,974	5,036	16
Disposals	(489)	(162)	(170)	(5)	(257)	(1,083)	(1)
Transfers	1,501	8,521	-	21	(10,043)	-	-
31 December 2010	25,037	101,268	6,416	1,036	4,728	138,485	687
Accumulated depreciation / amortisation							
At 1 January 2009	3,727	20,856	2,462	484	-	27,529	257
Depreciation/amortisation charge for the year	641	7,364	647	88	-	8,740	89
Accrued impairment	-	-	-	1	-	1	-
Impairment written-off	(25)	(22)	-	-	-	(47)	-
Depreciation/amortisation written-off	(31)	(192)	(151)	(11)	-	(385)	(2)
31 December 2009	4,312	28,006	2,958	562	-	35,838	344
Depreciation/amortisation charge for the year	654	7,489	642	86	-	8,871	90
Impairment written-off	(11)	(3)	-	-	-	(14)	-
Depreciation/amortisation written-off	(9)	(84)	(23)	(4)	-	(120)	(1)
31 December 2010	4,946	35,408	3,577	644	-	44,575	433
Net carrying amount at 31 December 2009	19,713	64,903	3,566	458	10,054	98,694	328
Net carrying amount at 31 December 2010	20,091	65,860	2,839	392	4,728	93,910	254

The Company's tangible fixed assets as at 31 December 2010 include land at the amount of BGN 3,605 thousand (31 December 2009: BGN 3,739 thousand) and building of carrying amount BGN 16,486 thousand (31 December 2009: BGN 15,974 thousand).

Tangible fixed assets as at 31 December 2010 include assets of book value BGN 2,344 thousand, which have been fully depreciated but still in use in the Company's activities (31 December 2009: BGN 1,708 thousand).

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13. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

There is a pledge established at 31 December 2010 as collateral for bank investment-purpose loan of carrying amount BGN 19,616 thousand used for machinery and equipment (31 December 2009: BGN 20,466 thousand).

There are no assets acquired under finance lease agreements in 2010 (31 December 2009: BGN 552 thousand).

The property, plant and equipment in progress as at 31 December include:

- Device GPP2-1X20/25MV at the amount of BGN 1,673 thousand (31 December 2009: BGN 1,667 thousand);
- Reconstruction of steam turbine at the amount of BGN 650 thousand (31 December 2009: none);
- Production of ammonium nitrate – 43% nitric acid at the amount of BGN 579 thousand (31 December 2009: BGN 569 thousand);
- SAP equipment at the amount of BGN 394 thousand (31 December 2009: none);
- Assembly of pumps for 43% nitric acid for weak nitric acid at the amount of BGN 265 thousand (31 December 2009: none);
- Assembly of pumps and a heater for magnesium nitrate at the amount of BGN 217 thousand (31 December 2009: none);
- Assembly of a compressor – BGN 147 thousand (31 December 2009: none);
- Heat exchanger for natural gas R-40 – BGN 131 thousand (31 December 2009: none);
- Advances to suppliers at the amount of BGN 87 thousand (31 December 2009: BGN 860 thousand);
- Automation of steam system at the amount of BGN 53 thousand (31 December 2009: none);
- Automation of AM-76 – none (31 December 2009: BGN 3,872 thousand);
- Reconstruction of the production line for mixed fertilisers – none (31 December 2009: BGN 2,107 thousand);
- Other objects at the amount of BGN 532 thousand (31 December 2009: BGN 979 thousand).

As at 31 December 2010, the Company obtained quotas for 2009 and 2010 at the total of 489 thousand tons. It emitted 312 thousand tons and has 177 thousand tons net quotas in accordance with the National Plan for allocation of quotas for emission trading in greenhouse gases. The fair value of the available quotas at unit price is BGN 4,837 thousand as at 31 December 2010.

14. INVESTMENTS IN SUBSIDIARIES

<i>Company name</i>	<i>Location of registration</i>	<i>Carrying amount</i>	<i>% of participation</i>	<i>Carrying amount</i>	<i>% of participation</i>
		<u>31.12.2010</u>		<u>31.12.2009</u>	
Neochim OOD	Turkey	3,144	99.83	3,144	99.83
Neochim Engineering EOOD	Bulgaria	1,000	100	1,000	100
Neochim Catering EOOD	Bulgaria	5	100	5	100
Neochim Protect EOOD	Bulgaria	5	100	5	100
		<u>4,154</u>		<u>4,154</u>	

The scope of activities of the subsidiaries and the dates of their acquisition are as follows:

- Neochim OOD, Odrin, Turkey – import, export and local trade in all types of chemical fertilizers. Date of acquisition - 13 August 2002.

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14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

- Neochim Engineering EOOD, Dimitrovgrad – design and construction activities; production of and trading in organic and inorganic chemical products and others. Date of acquisition - 27 December 2000;
- Neochim Engineering EOOD, Dimitrovgrad – purchase of goods and other articles for the purpose of resale either in their initial form or after processing or finishing; sale of goods manufactured by the company and others. Date of acquisition - 27 December 2000;
- Neochim Protect EOOD, Dimitrovgrad – safeguarding property of legal entities, buildings, premises and offices; safeguarding physical persons and their property and others. Date of acquisition - 24 April 2002;

15. LONG-TERM RECEIVABLES FROM RELATED PARTIES

	<u>31.12.2010</u>	<u>31.12.2009</u>
Trade receivables in foreign currency	5,521	5,182
Allowance for impairment	(1,139)	(1,354)
	<u>4,382</u>	<u>3,828</u>

In accordance with an agreement concluded with Neochim Ltd., Turkey, on 29 December 2006, trade receivables were rescheduled. On 19 December 2008 the repayment schedule was re-negotiated. The non-current and current receivables amount to BGN 5,595 thousand (31 December 2009: BGN 5,250 thousand) and are due until 30 June 2014. There is no interest to be paid on instalments. For the purpose of debt measurement, its amortised cost was determined on the basis of all future cash instalments, discounted at 7.465% - the interest rate applied on Company's borrowings.

As at 31 December, the rescheduled debt includes:

- nominal amount of BGN 5,595 thousand – USD 3,799 (31 December 2009: BGN 5,250 thousand – USD 3,849 thousand), including the non-current portion of BGN 5,521 thousand – USD 3,749 thousand (31 December 2009: BGN 5,182 thousand - USD 3,799 thousand);
- amortised cost of BGN 4,453 thousand – USD 3,023 thousand (31 December 2009: BGN 3,894 thousand – USD 2,855 thousand), including the non-current portion of BGN 4,382 thousand (31 December 2009: BGN 3,828 thousand)

The amount recoverable within one year of BGN 71 thousand (31 December 2009: BGN 66 thousand) is presented in the statement of financial position as current assets (Note 18).

<i>Movement of allowance for impairment</i>	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	<u>1,354</u>	<u>1,663</u>
Reversal of impairment	(296)	(284)
Effect of revaluation of foreign currency positions	84	(23)
Transfer of impairment to current portion	(3)	(2)
Balance at the end of the year	<u>1,139</u>	<u>1,354</u>

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16. DEFERRED TAX ASSETS

Deferred income taxes as at 31 December are related to the following items of the statement of financial position:

	<i>Temporary difference</i>	<i>Tax</i>	<i>Temporary difference</i>	<i>Tax</i>
	<u>31.12.2010</u>	<u>31.12.2010</u>	<u>31.12.2009</u>	<u>31.12.2009</u>
Property, plant and equipment	(3,374)	(337)	(12,252)	(1,225)
Total deferred tax liabilities	(3,374)	(337)	(12,252)	(1,225)
Tax loss carryforward	14,187	1,419	12,335	1,234
Write-down of receivables	1,123	112	1,465	147
Write-down of inventories	583	58	398	40
Accruals for unused paid leaves	518	52	596	60
Accruals for retirement benefit obligations to personnel	904	90	718	72
Accruals for unpaid benefits to local physical persons	92	9	131	11
Provision for recultivation	332	33	350	35
Total deferred tax assets	17,739	1,773	15,993	1,599
Net balance of deferred income tax assets	14,365	1,436	3,741	374

The movements within deferred tax assets are presented below:

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2010</i>	<i>Recognised in profit or loss for the year</i>	<i>Balance at 31 December 2010</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(1,225)	888	(337)
Tax loss carryforward	1,234	185	1,419
Write-down of receivables	147	(35)	112
Write-down of inventories	40	18	58
Accruals for unused paid leaves	60	(8)	52
Accruals for retirement benefit obligations to personnel	72	18	90
Accruals for unpaid benefits to local physical persons	11	(2)	9
Provision for recultivation	35	(2)	33
Total	374	1,062	1,436

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16. DEFERRED TAX ASSETS (CONTINUED)

<i>Deferred tax (liabilities)/ assets</i>	<i>Balance at 1 January 2009</i>	<i>Recognised in profit or loss for the year</i>	<i>Balance at 31 December 2009</i>
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>
Property, plant and equipment	(1,971)	746	(1,225)
Tax loss carryforward	-	1,234	1,234
Write-down of receivables	177	(30)	147
Write-down of inventories	44	(4)	40
Accruals for unused paid leaves	76	(16)	60
Accruals for retirement benefit obligations to personnel	58	14	72
Accruals for unpaid benefits to local physical persons	11	-	11
Provision for recultivation	40	(5)	35
Total	(1,565)	1,939	374

17. INVENTORIES

	<u><i>31.12.2010</i></u>	<u><i>31.12.2009</i></u>
Materials	17,105	16,755
Work-in-progress	3,895	2,883
Finished products	2,398	14,178
Goods	-	1
	<u>23,398</u>	<u>33,817</u>
 <i>Materials</i> include:	 <u><i>31.12.2010</i></u>	 <u><i>31.12.2009</i></u>
Precious metals	5,645	4,974
Basic materials	4,242	4,405
Spare parts and bearings	4,116	4,284
Auxiliary materials	1,884	2,006
Packaging materials	810	703
Automobile tyres	91	107
Catalyzers	66	39
Other materials	251	237
	<u>17,105</u>	<u>16,755</u>

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17. INVENTORIES (CONTINUED)

<i>Basic materials</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Metals	1,567	1,353
Wires and cables	770	755
Chemicals, catalyzers	333	431
Magnesit	277	246
Kalium chloride	252	302
Construction materials	194	205
Calcinated soda	150	106
Electrodes	141	155
Carbamide	111	244
Perflow	102	-
Oils	65	83
Zeolite	64	99
Sodium hydroxide	60	43
Novoflow	52	36
Quicklime	30	15
Monoammonium phosphate	16	269
Galoryl	-	34
Other	58	29
	<u>4,242</u>	<u>4,405</u>
<i>Finished products</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Ammonium Nitrate – EC Fertilizer	2,234	13,916
Sodium Nitrate – technical grade	40	20
Ammonium Hydrogencarbonate	25	157
Ureaformaldehyde Resin	15	21
Ammonia Water	14	20
Other	70	44
	<u>2,398</u>	<u>14,178</u>
<i>Work-in-progress</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Ammonia	3,354	1,713
Nitric Acid	202	102
Formalin	61	518
Ferro-molybdenum catalyzer	56	43
Ammonium Nitrate	26	13
Other	196	494
Total	<u>3,895</u>	<u>2,883</u>

There are encumbrances established on inventories as at 31 December 2010 as collateral for used bank loans:

- Precious metals – BGN 5,645 thousand;
- Finished products (Sodium Nitrate) – BGN 2,234 thousand;
- Work-in-progress (ammonia) – BGN 3,354 thousand.

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18. RECEIVABLES FROM RELATED PARTIES

	<u>31.12.2010</u>	<u>31.12.2009</u>
Receivables on sales in foreign currency	8,909	9,205
Receivables on sales in BGN	328	306
<i>Total trade receivables</i>	<u>9,237</u>	<u>9,511</u>
Rescheduled debt from a subsidiary (Note 15)	74	68
Impairment of rescheduled debt	<u>(3)</u>	<u>(2)</u>
	<u>71</u>	<u>66</u>
Receivables under advances paid in BGN	31	-
	<u>9,339</u>	<u>9,577</u>

The Company has set a common credit period of up to 270 days for which no interest is charged to counterparts – related parties. Any delay beyond 365 days is regarded by the Company as an indicator for impairment. The management judges collectability by analyzing the specific receivables and circumstances related to delay and takes a decision as to whether impairment is to be charged and at what amount. The policy adopted by the Company, for setting the common credit term is related to the seasonal nature of the manufactured finished products (fertilizers intended for agriculture).

The receivables from related parties denominated in foreign currency are as follows:

- in USD: USD 4,731 thousand (BGN -6,968 thousand) (31 December 2009: USD 6,738 thousand - BGN 9,192 thousand);
- in EUR: EUR 1,028 thousand – BGN 2,012 thousand (31 December 2009: EUR 7 thousand - BGN 13 thousand).

The most significant amount - 78% (31 December 2009: 97%) of receivables are those from the subsidiary in Turkey.

The *age structure* of non-matured (regular) trade receivables from related parties is as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
up to 30 days	3,535	4,105
from 31 to 90 days	-	1,752
from 91 to 270 days	<u>2,014</u>	<u>-</u>
	<u>5,549</u>	<u>5,857</u>

The *age structure* of past due but not impaired trade receivables from related parties is as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
from 31 to 90 days	16	9
from 91 to 180 days	-	157
from 180 to 365 days	3,672	-
from 1 to 2 years	<u>-</u>	<u>3,488</u>
	<u>3,688</u>	<u>3,654</u>

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18. RECEIVABLES FROM RELATED PARTIES (CONTINUED)*Movement of allowance for impairment:*

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	2	2
Transfer from impairment of non-current portion	3	2
Reversal of impairment	(2)	(2)
Balance at the end of the year	<u>3</u>	<u>2</u>

19. TRADE RECEIVABLES AND ADVANCES

	<u>31.12.2010</u>	<u>31.12.2009</u>
Receivables from local clients	299	234
Write-down of receivables from local clients	(9)	(20)
Receivables from foreign clients	39	42
Write-down of receivables from foreign clients	-	(20)
	<u>329</u>	<u>236</u>
Advances granted to local suppliers	65	638
Advances granted to foreign suppliers	78	309
	<u>472</u>	<u>1,183</u>

The Company has set a common credit period of up to 365 days for which no interest is charged to counterparts – related parties. Any delay after this period is regarded by the Company as an indicator for impairment. The management assesses collectability by analyzing the exposure of the client as well as the possibilities for repayment and takes a decision as to whether to charge impairment.

The policy adopted by the Company, for setting the common credit term is related to the seasonal nature of the manufactured finished products (fertilizers intended for agriculture).

The *age structure* of non-matured (regular) trade receivables amounts to BGN 146 thousand (31 December 2009: BGN 26 thousand) is up to 30 days.

The *age structure* of past due but not impaired trade receivables is as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
up to 30 days	126	88
from 31 to 90 days	29	27
from 91 to 180 days	9	93
from 181 to 365 days	19	2
	<u>183</u>	<u>210</u>

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19. TRADE RECEIVABLES AND ADVANCES (CONTINUED)

The *age structure* of past due impaired trade receivables is as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
over 2 year	9	40
Allowance for impairment	<u>(9)</u>	<u>(40)</u>
	<u><u>-</u></u>	<u><u>-</u></u>

Movement of allowance for impairment:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of the year	<u>40</u>	<u>68</u>
Impairment amount	3	4
Amounts written-off as uncollectable	(34)	(28)
Reversal of impairment	<u>-</u>	<u>(4)</u>
Balance at the end of the year	<u><u>9</u></u>	<u><u>40</u></u>

The *advances provided* as at 31 December are regular and are for the purchase of:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Materials	34	624
Services	109	323
	<u><u>143</u></u>	<u><u>947</u></u>

20. OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments include:

	<u>31.12.2010</u>	<u>31.12.2009</u>
VAT refundable	3,396	3,101
Prepayments	476	444
Rentals receivable from residential apartments and garages	27	22
Impairment of rentals receivable	(2)	(2)
Receivables from workers and employees	24	28
Deposits	12	16
Court and awarded receivables	7	13
Corporate tax	-	135
Grant receivables	-	28
Other	47	87
Impairment of other receivables	<u>(2)</u>	<u>(33)</u>
	<u><u>3,985</u></u>	<u><u>3,839</u></u>

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20. OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Prepayments are comprised of:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Insurance	378	420
Prepayments for handling of ships	47	-
Subscriptions	16	18
Other	35	6
	<u>476</u>	<u>444</u>

21. CASH AND CASH EQUIVALENTS

	<u>31.12.2010</u>	<u>31.12.2009</u>
Current accounts	2,344	512
Cash in hand	18	11
Blocked cash under litigations	-	222
	<u>2,362</u>	<u>745</u>

There is no blocked cash at the date of these financial statements (2009: BGN 222 thousand). The case was closed, indemnity was paid (Note 9) and the distraint was lifted.

22. SHARE CAPITAL AND RESERVES

Share capital

As at 31 December 2010, the registered share capital of Neochim AD amounts to BGN 2,654 thousand, distributed in 2,654,358 ordinary, registered voting shares with nominal value of BGN 1 per share.

The treasury shares are 68,394 at the amount of BGN 3,575 thousand (31 December 2009: 68,394 shares - BGN 3,575 thousand).

Statutory reserves are set aside from distribution of profit in accordance with the Commercial Act and the Statutes of the Company.

23. LONG-TERM BANK LOANS

	<u>31.12.2010</u>	<u>31.12.2009</u>
Non-current payables under bank loans		
Bank loans	2,480	6,254
Deferred charges for loan management and administration	(8)	(33)
	<u>2,472</u>	<u>6,221</u>
Current portion of long-term bank loans		
Bank loans	4,272	4,112
Deferred charges for loan management and administration	(28)	(47)
	<u>4,244</u>	<u>4,065</u>
Total payables under interest-bearing loans	<u>6,716</u>	<u>10,286</u>

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23. LONG-TERM BANK LOANS (CONTINUED)

The terms and conditions of the authorised loans are as follows:

<i>Loan</i>	<i>31.12.2010</i>	<i>31.12.2009</i>	<i>Agreed</i>	<i>Maturity</i>	<i>Interest rate</i>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>amount in</i>		
			<i>foreign</i>		
			<i>currency</i>		
1	3,982	7,146	EUR 5,500 thousand	20.03.2012	1M EURIBOR plus 3 points p.a.
2	2,247	3,140	EUR 2,000 thousand	16.06.2013	1M EURIBOR plus 3 points p.a.
3	427	-	EUR 220 thousand	20.08.2013	3 M EURIBOR plus 4 points p.a.
4	60	-	EUR 31 thousand	20.08.2013	3 M EURIBOR plus 4 points p.a.
	6,716	10,286			

The funds were granted for the purpose of renewal and reconstruction of production facilities for Ammonium Nitrate, Ammonia and projects related to energy efficiency in the Company.

The long-term and short-term loans (Note 28) are secured with the following assets, owned by the Company:

- equipment of carrying amount BGN 19,616 thousand at 31 December 2010 (Note 13);
- precious metals of book value BGN 5,645 thousand at 31 December 2010 (Notes 17 and 28);
- finished products – Ammonium Nitrate of book value BGN 2,234 thousand at 31 December 2010 (Notes 17 and 28);
- work in progress – Ammonia of book value BGN 3,354 thousand at 31 December 2010 (Notes 17 and 28);
- proceeds from future receivables under concluded sales contracts at the amount of USD 39,260 thousand (Note 28).

24. PAYABLES TO SUPPLIERS

	<i>31.12.2010</i>	<i>31.12.2009</i>
Bulgargas EAD	4,403	6,503
Finance lease liabilities	395	766
	4,798	7,269

Payables to Bulgargas EAD

An Annex (dated 7 May 2007) to the initial agreement with Bulgargas EAD was signed whereby an arrangement was achieved for rescheduling of the debt as follows:

- final term under initial agreement – 31 December 2011
- final term under Annex of 7 May 2007 – 31 December 2013
- agreed interest for the rescheduled payments – at the amount of the BIR plus 4 points annual interest. Interest payments shall be due after 2012.

The total obligation amounts to BGN 6,503 thousand (31 December 2009: BGN 7,503 thousand)

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24. PAYABLES TO SUPPLIERS (CONTINUED)

As at 31 December 2010 the liability is presented in the statement of financial position as follows:

- BGN 4,403 thousand – non-current liability distributed in monthly instalments as per repayment schedule from 1 January 2012 to 31 December 2013 (31 December 2009: BGN 6,503 thousand).
- BGN 2,100 thousand – payable until 31 December 2010 (the amount is presented as a current payable to suppliers (31 December 2009: BGN 1,000 thousand) (Note 30).

In case that any instalment of Neochim AD under the repayment schedule is past due by more than 5 days Bulgargas EAD may cease the supply of natural gas while if any instalment under the repayment schedule is past due by more than 30 days, the remaining amount of the rescheduled liability becomes eligible for immediate payment.

Finance lease liabilities

The finance lease liabilities, included in the statement of financial position as at 31 December 2010, are under agreements for acquisition of motor vehicles. They are presented net of the interest due and are as follows:

<i>Term</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Up to one year	287	336
Over one year	395	766
	<u>682</u>	<u>1,102</u>

The minimum lease payments under finance lease are due as follows:

<i>Term</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Up to one year	323	399
Over one year	420	836
	<u>743</u>	<u>1,235</u>
Future finance costs under finance leases	(61)	(133)
Present value of finance lease liabilities	<u>682</u>	<u>1,102</u>

Payments under finance lease agreements for the acquisition of automobiles due after 31 December 2011 are presented as non-current finance lease liabilities. Accordingly, the lease payments due in the following 12 months are presented in the statement of financial position under other current liabilities as current portion of finance lease liabilities (Note 33).

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25. LONG-TERM PROVISIONS

The long-term provisions cover amounts accrued for closing-down of production waste repositories used by the Company in prior periods and for recultivation of the terrains. The final term for performing the major recultivation procedures is year 2011 with continuing monitoring until year 2040. The total amount of the provision, determined on the basis of expert assessment of the expected expenses on the execution of the obligation is BGN 457 thousand (31 December 2009: BGN 511 thousand) (Note 2.23) while the amortised value at which it is presented in the statement of financial position is BGN 331 thousand (31 December 2009: BGN 350 thousand), including a non-current portion of BGN 88 thousand (31 December 2009: BGN 126 thousand). The amortised value has been calculated on the basis of the present value of all future cash payment discounted with interest of 7.159%. The payments due for a period of up to one year amount to BGN 243 thousand (31 December 2009: BGN 224 thousand) are presented in the statement of financial position as other current liabilities (Note 33).

26. RETIREMENT BENEFIT OBLIGATIONS

The retirement benefit obligations include the present value of the Company's liability as at 31 December 2010 to pay indemnities to its employees upon coming of age for retirement. According to the provisions of the Labor Code and the Collective Labour Agreement of the Company, the employer is to pay an indemnity to its workers and employees upon retirement at the amount of two to six gross monthly salaries depending on the length of service with the Company.

For the purpose of establishing the amount of the long-term payables to personnel, the Company has assigned an actuarial valuation by using the services of a certified actuary.

The obligation is formed as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Present value of the obligations at 1 January	1,163	1,055
Unrecognised actuarial loss at 1 January	(445)	(473)
Liability recognised in the statement of financial position at 1 January	<u>718</u>	<u>582</u>
Interest expense	78	66
Current service costs	171	145
Net actuarial loss recognised for the period	44	93
Payments for the period	(107)	(168)
Present value of the obligations at 31 December	1,320	1,163
Unrecognised actuarial loss at 31 December	(416)	(445)
Liability recognised in the statement of financial position at 31 December	<u><u>904</u></u>	<u><u>718</u></u>

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26. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The change in the present value of the liability is as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Present value of the obligations at 1 January	1,163	1,055
Interest expense for the period	78	66
Current service costs for the period	171	145
Payments for the period	(107)	(168)
Past service costs	66	-
Actuarial (gain)/loss for the period	(51)	65
Present value of the obligation at 31 December	1,320	1,163

The cumulative effect of the difference between the actual experience in 2010, the assumptions made in the previous assessment and the change in the actuarial assumptions, is an increase in the present value of the liability and a decrease in the unrecognised actuarial loss as at 31 December 2010.

The following actuarial assumptions are used in calculating the present value of the liability as at 31 December 2010:

- mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2007 -2009;
- staff turnover rate – from 0% to 23 % for the five age groups formed with the Company;
- discount factor – the rate applied is based on the effective annual interest rate $i = 6.5\%$ (2009: $i = 7.0\%$). It is grounded on the market yield on the long-term government securities (of 10-year maturity). Considering that the average term to pensioning is longer than 10 years, the effective annual interest rate used as discount rate has been established through extrapolation.
- the assumption for the future level of working salaries is based on the information provided by the Company's management and amounts by year as follows:
 - for 2011 – growth of 10% against the level in 2010;
 - for 2012 – growth of 2% against the level in 2011;
 - for 2013 – growth of 6% against the level in 2012;
 - for 2014 – growth of 10% against the level in 2013;
 - for 2015 and for each subsequent year – growth of 10% against the prior year level.

The assumption in the previous year was as follows:

- for 2010 – growth of 5% against the level in 2009;
- for 2011 – growth of 5% against the level in 2010;
- for 2012 – growth of 10% against the level in 2011;
- for 2013 – growth of 10% against the level in 2012;
- for 2014 and for each subsequent year – growth of 10% against the prior year level.

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27. LONG-TERM FINANCING

Long-term financing include the value of subsidy received in 2009 for funding the project for construction of a turbo-generator station. The funds are granted by the European Bank of Reconstruction and Development in relation with the Framework Agreement for energy efficiency and recoverable energy resources.

The amount of the subsidy is BGN 293 thousand, of them recognised income from financing for 2010 – BGN 21 thousand (2009: BGN 37 thousand) and financing that will be recognised in subsequent reporting periods – BGN 235 thousand, by period as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Up to 1 year (current portion)	21	21
Over 1 year (non-current portion)	<u>214</u>	<u>235</u>
	<u>235</u>	<u>256</u>

The current portion of the financing will be recognised as current income over the following 12 months from the date of the statement of financial position and presented in the group of current liabilities on the line 'Other current liabilities'.

28. SHORT-TERM BANK LOANS

	<u>31.12.2010</u>	<u>31.12.2009</u>
Bank loans	8,507	20,327
Deferred charges for loan management and administration	(18)	(51)
	<u>8,489</u>	<u>20,276</u>

The terms and conditions of the authorised loans are as follows:

<i>Loan</i>	<u>31.12.2010</u>	<u>31.12.2009</u>	<u>Agreed</u>	<u>Maturity</u>	<u>Interest rate</u>
	<u>BGN'000</u>	<u>BGN'000</u>	<u>Amount</u>		
1	8,489	10,286	Up to BGN 15,000 thousand	25.03.2011	1-month SOFIBOR plus 4.2 points p.a.
2	-	9,990	Up to BGN 10,000 thousand	28.02.2010	1-week SOFIBOR plus 4.2 points p.a.
	<u>8,489</u>	<u>20,276</u>			

The collateral provided for the loans is disclosed in Note 23.

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29. PAYABLES TO RELATED PARTIES

	<u>31.12.2010</u>	<u>31.12.2009</u>
Advances received for sale of finished products	19,564	2,273
Payables for supplied materials, fuel and services	768	596
Loans received	-	5,000
	<u>20,332</u>	<u>7,869</u>

The loan received is from a shareholder company and is a revolving one with agreed amount of up to BGN 10,000 thousand, interest 6% and final term for repayment – up to 31 December 2011 (Note 36).

30. TRADE PAYABLES

	<u>31.12.2010</u>	<u>31.12.2009</u>
Local suppliers	3,143	2,708
Current portion of payables to Bulgargas EAD	2,100	1,000
Foreign suppliers	543	263
Advances from customers in foreign currency	537	96
Advances from customers in BGN	20	18
	<u>6,343</u>	<u>4,085</u>

The payables to local suppliers includes an amount due to Bulgargas EAD under current supplies of natural gas amounting to BGN 1,338 thousand (31 December 2009: none). The current portion of the payables to Bulgargas EAD includes the amounts due by the end of the following 12 months as instalments under the rescheduled debt as per an agreement and the annex thereto dated 7 May 2007 (Note 24). In accordance with the terms and conditions for the supply of natural gas the Company should pay the current supplies in advance as per the submitted order and additional payment within 10 days. After this date, Bulgargas EAD charges the statutory interest.

The Company has no payables that are past due as at 31 December.

31. PAYABLES TO PERSONNEL AND FOR SOCIAL SECURITY

	<u>31.12.2010</u>	<u>31.12.2009</u>
Payables to personnel, including	1,170	1,226
<i>Current payables for December</i>	738	730
<i>Accruals for unused paid leaves</i>	432	496
Payables for social security, including	478	511
<i>Current payables for December</i>	392	411
<i>Accruals for unused paid leaves</i>	86	100
	<u>1,648</u>	<u>1,737</u>

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32. TAX PAYABLES

	<u>31.12.2010</u>	<u>31.12.2009</u>
Tax payables under Personal Income Taxation Act	112	111
Other	<u>5</u>	<u>6</u>
	<u>117</u>	<u>117</u>

The *tax payables* are regularly settled.

By the date of issue of these financial statements the following inspections and audits have been performed:

- under VATA – until 31 January 2008;
- full scope tax audit – until 31 December 2006;
- National Social Security Institute – until 31 March 2009.

33. OTHER CURRENT LIABILITIES

Other current liabilities include:

	<u>31.12.2010</u>	<u>31.12.2009</u>
Current portion of finance lease liabilities	287	336
Short-term portion of provisions (Note 27)	243	224
Deposits from clients	206	214
Deductions from work salaries	172	173
Guarantees received	83	65
Dividend payable	73	74
Water usage charge	31	41
Financing	21	21
Other liabilities	<u>67</u>	<u>36</u>
	<u>1,183</u>	<u>1,184</u>

The received deposits from clients are mainly for packaging.

34. CONTINGENT LIABILITIES AND COMMITMENTS*Significant irrevocable agreements and commitments*

The Company had adopted an Investment Program to be executed until year 2011 in order to make its production activities compliant with the changes in the ecological legislation in Bulgaria taking place in relation with the accession of the country to the European Union. Investment expenses are planned for achieving compliance with the terms of the complex permit, which will be incurred in 2011 – BGN 260 thousand.

In 2010 the Company started a process for investigating the energy efficiency of part of its industrial system, the overall completion of which is expected by the end of 2011. According to documents issued by an external contractor, at the date of issue of the separate financial statement the Company should fulfil measures to increase the energy efficiency whereas the initial investment has been estimated to BGN 218 thousand.

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35. FINANCIAL RISK MANAGEMENT

Categories of financial instruments:

<i>Financial assets</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Cash and cash equivalents	2,362	745
Loans and receivables, including:	14,134	13,805
<i>Trade receivables from related parties (Notes 15 and 18)</i>	13,690	13,405
<i>Trade and other receivables (Notes 19 and 20)</i>	444	400
Available-for-sale investments	5	5
<i>Financial liabilities</i>	<u>31.12.2010</u>	<u>31.12.2009</u>
Financial liabilities at amortised cost, including:	27,807	48,684
<i>Short-term and long-term loans (Notes 23, 28 and 29)</i>	15,205	35,562
<i>Trade and other payables (Notes 24, 29 and 30)</i>	12,602	13,122

In the ordinary course of business, the Company can be exposed to a variety of financial risks the most important of which are market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk and risk of interest-bearing cash flows. The general risk management is focused on the difficulty to forecast the financial markets and to achieve minimizing the potential negative effects that could affect the financial results and position of the Company. The financial risks are currently identified, measured and monitored through various control mechanisms in order to establish adequate prices for the Company's products and the borrowed thereby capital, as well as to assess adequately the market circumstance of its investments and the forms for maintenance of free liquid funds through preventing undue risk concentrations.

Risk management is currently performed by the Company's managing bodies following the policy adopted by the Board of Directors. The Board of Directors has approved the basic principles of general financial risk management, on the basis of which specific procedures have been established for management of the separate specific types of risk such as currency, price, interest, credit and liquidity risk in the use of non-derivative instruments.

Market risk

Currency risk

The Company usually performs its activities with an active exchange with foreign suppliers and clients. The Company is exposed to currency risk mainly in respect of USD. Approximately 80% of Company's financial assets are formed from receivables related to export of finished products contracted as payable in USD. The currency risk is related with the adverse floating of the exchange rate of USD against BGN in future business transactions as to the recognised assets and liabilities denominated in foreign currency and as to the net investments in foreign companies.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

Foreign currency structure analysis

31 December 2010	<u><i>in EUR</i></u> <u><i>BGN'000</i></u>	<u><i>in USD</i></u> <u><i>BGN'000</i></u>	<u><i>in BGN</i></u> <u><i>BGN'000</i></u>	<u><i>Total</i></u> <u><i>BGN'000</i></u>
<i>Financial assets</i>				
Cash and cash equivalents	558	1,763	41	2,362
Loans and receivables	2,070	11,350	714	14,134
Available-for-sale investments	-	-	5	5
	<u>2,628</u>	<u>13,113</u>	<u>760</u>	<u>16,501</u>
<i>Financial liabilities</i>				
Financial liabilities at amortised cost	<u>7,594</u>	<u>16</u>	<u>20,197</u>	<u>27,807</u>
31 December 2009	<u><i>in EUR</i></u> <u><i>BGN'000</i></u>	<u><i>in USD</i></u> <u><i>BGN'000</i></u>	<u><i>in BGN</i></u> <u><i>BGN'000</i></u>	<u><i>Total</i></u> <u><i>BGN'000</i></u>
<i>Financial assets</i>				
Cash and cash equivalents	285	122	338	745
Loans and receivables	41	13,091	673	13,805
Available-for-sale investments	-	-	5	5
	<u>326</u>	<u>13,213</u>	<u>1,016</u>	<u>14,555</u>
<i>Financial liabilities</i>				
Financial liabilities at amortised cost	<u>10,567</u>	<u>95</u>	<u>38,022</u>	<u>48,684</u>

Foreign currency sensitivity analysis

The major foreign currency exposure of the Company is to USD. The effect of Company's sensitivity to 10% increase/decrease in current exchange rates of BGN to USD, based on the foreign currency assets and liabilities at 31 December and on the assumption that the influence of all other variables is ignored, has been measured and presented as impact on the post-tax financial result and on the equity.

In case of 10% increase in the rate of USD to BGN, the final effect on post-tax profit of the Company would be an increase by BGN 1,179 thousand (2009: BGN 1,181 thousand) mostly attributable to the receivables from clients denominated in foreign currency. Respectively, the impact on equity would be the same.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

On 10% decrease in the exchange rate of USD to BGN, the final impact on the post-tax profit of the Company would be equal and reciprocal of the stated above.

The management believes that the presented above sensitivity analysis based on the balance sheet structure of foreign currency assets and liabilities is representative for the currency sensitivity of the Company for the respective period (reporting year).

Price risk

The Company is exposed to a price risk of adverse changes in the price of the main raw material used in its production process – the natural gas, as far as this price is negotiated at government level.

The Company is not exposed to a significant price risk of adverse changes in the prices of other raw materials and other materials, because under the contractual relations with suppliers they are periodically analyzed and discussed for revision and update in accordance with the market changes.

The process of getting out of the economic crisis contributed to exhilaration both in the internal and international markets. This reduced the price risk of the finished products sold by the Company and most of all of the major product – Ammonium Nitrate.

The Company applies also a strategy for optimisation of production costs, flexible marketing and price policies.

Credit risk

The main financial assets of the Company are cash in hand and at bank accounts, trade and other receivables.

Credit risk is mainly the risk that any of the Company's clients (and other counterparts) will fail to discharge in full and within the normally envisaged terms the amounts due under trade and other receivables. The latter are presented in the statement of financial position at net value after deducting the impairment related to doubtful and bad debts. Such impairment is made where and when events have existed identifying loss due to uncollectability as per previous experience.

Collectability and concentration of receivables are strictly monitored on an ongoing basis by the Sales Department in accordance with the credit policy adopted by the Company. For this purpose, the open exposures by client, the observance of contractual payment terms, and the proceeds received are subject to review on daily basis. In addition, receivables that have not been paid within the set terms are also followed.

The Company performs the main part of its sales to four major distributors, including:

- For the domestic market – the main distributor for the Company is Evro Fert AD and the common practice is to negotiate 100% advance payment of the transaction amount;
- Company's export in 2010 is performed by three main distributors: Distributor 1 – 29%, Distributor 2 – 32% and Distributor 3 – 17%.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Company's management currently monitors and analyzes the trade practices established with the main distributors and clients. On the basis of experience, the sales to Neochim Ltd., Turkey, have been regarded as bearing higher risk due to the economic environment in this country and therefore, these receivables are subject to specific current consideration and assessment. The management judges as concentration of credit risk the receivables from Neochim Ltd., Turkey (81% of sales receivables), including current receivables on sales – BGN 6,941 thousand and rescheduled debt – BGN 4,453 thousand.

Cash transactions are limited to several reputable banks with liquid stability. The nature of Company's operations does not presume the existence of free funds of significant amount. In addition, the credit exposure with banks is currently monitored and analyzed for the purpose of efficient use of funds.

Liquidity risk

Liquidity risk is the adverse situation when the Company encounters difficulty in meeting unconditionally its obligations within their maturity. The liquidity management policy of the Company's is conservative maintaining a constant optimal liquid reserve of cash and a capability for funding its business activities, including by securing and maintenance of adequate credit resources and facilities, continuous control monitoring of the actual and forecasted cash flows by periods ahead and matching maturity profiles of assets and liabilities.

One of the main resources for funding the Company's operations is the use of borrowings – bank loans.

Maturity analysis

The table below presents the financial non-derivative assets and liabilities of the Company at the statement of financial position date, grouped by remaining term to maturity, determined against the contractual maturity and cash flows. The table is prepared on the basis of undiscounted cash flows and the earliest date on which the receivable and respectively, the payable becomes due for payment. The amounts include principal and interest.

31 December 2010	up to 1 month	1-3 months	3-6 months	6-12 months	1 -2 years	2 -5 years	over 5 year	Total
<i>Financial assets</i>								
Cash and cash equivalents	2,362	-	-	-	-	-	-	2,362
Loans and receivables	8,497	46	-	1,202	2,055	3,476	-	15,276
Available-for-sale investments	-	-	-	-	-	-	5	5
	<u>10,859</u>	<u>46</u>	<u>-</u>	<u>1,202</u>	<u>2,055</u>	<u>3,476</u>	<u>5</u>	<u>17,643</u>
<i>Financial liabilities</i>								
Financial liabilities at amortised cost	<u>9,728</u>	<u>5,089</u>	<u>2,094</u>	<u>3,771</u>	<u>4,533</u>	<u>3,030</u>	<u>88</u>	<u>28,333</u>

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)*Maturity analysis (continued)*

31 December 2009	up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	over 5 year	Total
<i>Financial assets</i>								
Cash and cash equivalents	523	-	-	222	-	-	-	745
Loans and receivables	4,287	1	5,630	19	84	5,140	-	15,161
Available-for-sale investments	-	-	-	-	-	-	5	5
	4,810	1	5,630	241	84	5,140	5	15,911
<i>Financial liabilities</i>								
Financial liabilities at amortised cost	8,871	7,087	11,435	8,475	6,754	7,508	126	50,256

Risk of interest-bearing cash flows

In general, the Company does not have a significant portion of interest-bearing assets except for cash cash equivalents. Since it does not maintain significant amounts of free cash, its income and operating cash flows are largely independent from the changes in market interest rates.

The Company is exposed to interest risk because of its long-term and short-term loans. They are usually with a floating interest rate, which makes its cash flows dependent on the interest rate risk.

When concluding bank loan contracts, the Company manages cash flow risk of interest rate levels by trying to negotiate interest rates through choosing from the most favourable conditions offered on the banking market.

Interest analysis

31 December 2010	<i>Interest-free</i>	<i>With floating interest %</i>	<i>With fixed interest %</i>	<i>Total</i>
<i>Financial assets</i>				
Cash and cash equivalents	18	2,344	-	2,362
Loans and receivables	14,057	6	71	14,134
Available-for-sale investments	5	-	-	5
	14,080	2,350	71	16,501
<i>Financial liabilities</i>				
Financial liabilities at amortised cost	7,517	20,290	-	27,807

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest analysis (continued)

31 December 2009	<i>Interest-free</i>	<i>With floating interest %</i>	<i>With fixed interest %</i>	<i>Total</i>
<i>Financial assets</i>				
Cash and cash equivalents	11	734	-	745
Loans and receivables	13,727	12	66	13,805
Available-for-sale investments	5	-	-	5
	<u>13,743</u>	<u>746</u>	<u>66</u>	<u>14,555</u>
<i>Financial liabilities</i>				
Financial liabilities at amortised cost	<u>7,616</u>	<u>41,068</u>	<u>-</u>	<u>48,684</u>

The Company's management currently monitors and analyzes its exposure to changes in interest rates. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the Company calculates the impact of a defined interest rate shift, expressed in points, on the financial result and equity.

The table below demonstrates the Company's sensitivity to possible increase in interest rates by 0.5% based on the structure of assets and liabilities as at 31 December and with the assumption that the influence of all other variables is ignored. The effect is measured and presented as impact on the financial result after taxes and on equity.

31 December 2010	<i>With floating interest %</i>	<i>Interest rate increase</i>	<i>Impact on post-tax financial result</i>	<i>Impact on equity</i>
<i>Financial assets</i>				
BGN	<u>6</u>	0.5	<u>0.03</u>	<u>0.03</u>
<i>Financial liabilities</i>				
EUR	6,716	0.5	(30)	(30)
BGN	13,574	0.5	(61)	(61)
	<u>20,290</u>		<u>(91)</u>	<u>(91)</u>
31 December 2009	<i>With floating interest %</i>	<i>Interest rate increase</i>	<i>Impact on post-tax financial result</i>	<i>Impact on equity</i>
<i>Financial assets</i>				
BGN	<u>12</u>	0.5	<u>0.05</u>	<u>0.05</u>
<i>Financial liabilities</i>				
EUR	10,286	0.5	(46)	(46)
BGN	30,782	0.5	(139)	(139)
	<u>41,068</u>		<u>(185)</u>	<u>(185)</u>

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

On interest rate decrease by 0.5%, the final impact on Company's post-tax profit would be equal and reciprocal to the stated above. The above table does not include cash and cash equivalents for which the effect of increase or decrease in the floating interest rate would be insignificant.

Capital risk management

The capital management objectives of the Company are to build and maintain capabilities to continue its operation as a going concern and to provide return on the investments of shareholders and economic benefits to other stakeholders and participants in its business as well as to maintain an optimal capital structure to reduce the cost of capital.

The Company currently monitors the availability and structure of capital based on the gearing ratio as presented in the table below as at 31 December:

	<u>2010</u>	<u>2009</u>
Total borrowings, including:	22,390	44,167
Loans from banks and third parties	15,205	35,562
Finance lease liabilities	682	1,102
Payables to Bulgargas (Note 24)	6,503	7,503
Less: cash and cash equivalents	2,362	745
Net debt	20,028	43,422
Total equity	92,867	102,647
Total capital	112,895	146,069
Gearing ratio	17.74%	29.73%

Fair values

Fair value is generally the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction between independent, willing and knowledgeable parties.

The financial assets, owned by the Company, represent mainly trade receivables and cash available at current bank accounts and therefore, it has been accepted that their carrying amount is almost equal to their fair value. The financial liabilities, owned by the Company, represent mainly loans with floating interest and trade payables and therefore, it has been accepted that their carrying amount is almost equal to their fair value.

An exception to this are the investments in subsidiaries for which at present neither market is available nor objective conditions to determine reliably their fair value and therefore, they are presented in the annual financial statements at acquisition cost.

36. RELATED PARTY TRANSACTIONS

The Company's related parties are as follows:

<u>Related parties</u>	<u>Relation type</u>
<i>Shareholders:</i>	
Ecotech OOD	Main shareholder (27.42 %)
Evro Fert AD	Main shareholder (23.83 %)
Karifert International Offshore S.A.L., Lebanon	Main shareholder (17.16 %)

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36. RELATED PARTY TRANSACTIONS (CONTINUED)***Subsidiaries:***

Neochim Catering EOOD	100% owned by the Company
Neochim Engineering EOOD	100% owned by the Company
Neochim Protect EOOD	100% owned by the Company
Neochim Ltd., Turkey	99.83 % owned by the Company

Companies owned by main shareholders and companies in which individuals who exercise control over Neochim AD directly or indirectly hold a significant share (other related parties) are as follows:

Bettran AD	Silico-07 OOD
Zemia OOD	Chimoil Trade OOD
Credo OOD	Omega Finance OOD
Consilium EOOD	Bulchimtrade OOD
Shipicom OOD	Orgachim Trading 2008 OOD
Carimex Europe – Ship Agency OOD	Medical Centre – Health Medica OOD
Carimex Chemicals SAL	Rubber Trade OOD
Carimex Chemicals Cyprus	Fertilisers Trade OOD
BCS EOOD	Chimceltex OOD
Inofert 2001 OOD	Chimtrans OOD
Zemia Dobrich EOOD	Dialisa Bulgaria OOD
IT Systems Consult EOOD	BKS Dimitrovgrad Consortium AD
Terachim-Dimitrovgrad EOOD	Neo Kiten EOOD
Neo Titan EOOD	Association FC Dimitrovgrad 1947
MD Invest EOOD	DGT Consult OOD
Neoplod EOOD	Lotos OOD

Supplies from related parties

	<u>2010</u>	<u>2009</u>
<i>Materials</i>		
Subsidiaries	904	1,321
Main shareholder	625	571
Other related parties	315	391
	<u>1,844</u>	<u>2,283</u>
<i>Services</i>		
Subsidiaries	2,705	3,243
Other related parties	2,188	850
Main shareholder	254	158
	<u>5,147</u>	<u>4,251</u>
<i>Goods</i>		
Main shareholder	23	-
Subsidiaries	-	1,278
	<u>23</u>	<u>1,278</u>
<i>PPE</i>		
Main shareholder	-	430
Total	<u>7,014</u>	<u>8,242</u>

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36. RELATED PARTY TRANSACTIONS (CONTINUED)

<u><i>Sales to related parties</i></u>	<u>2010</u>	<u>2009</u>
<i>Finished products</i>		
Main shareholder	79,245	80,994
Other related parties	44,508	379
Subsidiaries	12,593	6,180
	<u>136,346</u>	<u>87,553</u>
<i>Payments for rights over trademarks and royalties</i>		
Main shareholder	<u>1,177</u>	<u>1,592</u>
<i>Services</i>		
Subsidiaries	339	344
Main shareholder	154	341
Other related parties	18	30
	<u>511</u>	<u>715</u>
<i>Goods</i>		
Main shareholder	-	3,804
Subsidiaries	2	-
	<u>2</u>	<u>3,804</u>
<i>PPE</i>		
Main shareholder	<u>456</u>	<u>423</u>
<i>Other</i>		
Subsidiaries	69	35
Main shareholder	19	17
Other related parties	7	9
	<u>95</u>	<u>61</u>
Total	<u><u>138,587</u></u>	<u><u>94,148</u></u>

The Company receives royalties at the amount of BGN 1,057 thousand (2009: BGN 1,472 thousand) (Note 3). By virtue of a Contract of 4 June 2001 and an Annex thereto of 29 May 2006, Neochim AD has granted to Evro Fert AD the exclusive right of use of the trademark Neofert (Reg. No. 33171, date of registration 8 May 1998) for a period ending on 31 August 2011. The revenue earned on this right for year 2010 amount to BGN 120 thousand (2009: BGN 120 thousand) and are presented as 'other operating income' (Note 4).

The terms and conditions of these transactions do not deviate from the market ones for similar transactions.

Loan agreement was concluded with Evro Fert AD under the following terms and conditions:

Purpose of the loan:	For working capital
Contracted amount:	BGN 10,000 thousand
Maturity:	31 December 2011
Contracted interest rate:	6%
Collateral:	Promissory note
Balance at 31 December 2010:	none (31 December 2009: BGN 5,000 thousand)

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36. RELATED PARTY TRANSACTIONS (CONTINUED)

In 2010 the Company used BGN 17,470 thousand (2009: BGN 7,000 thousand) and respectively, repaid amounts under loans for working capital from Evro Fert AD at the amount of BGN 22,470 thousand (2009: BGN 2,000 thousand) and interest was charged at the amount of BGN 513 thousand (2009: BGN 32 thousand). The Company issued a promissory note at the amount of BGN 10,000 thousand as loan collateral.

Short-term receivables from related parties as at 31 December are as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
<i>Receivables on sales in BGN</i>		
Main shareholder	305	284
Subsidiaries	22	18
Other related parties	1	4
	<u>328</u>	<u>306</u>
<i>Receivables on sales in foreign currency</i>		
Subsidiaries	7,012	9,258
<i>Including book value</i>	7,015	9,260
<i>accrued impairment</i>	(3)	(2)
Other related parties	1,968	13
	<u>8,980</u>	<u>9,271</u>
<i>Receivables under advances in BGN</i>		
Subsidiaries	7	-
Other related parties	24	-
	<u>31</u>	<u>-</u>
Total	<u><u>9,339</u></u>	<u><u>9,577</u></u>

Long-term receivables from related parties as at 31 December are as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
<i>Receivables on sales in foreign currency</i>		
Subsidiaries	4,382	3,828
<i>Including book value</i>	5,521	5,182
<i>accrued impairment</i>	(1,139)	(1,354)

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36. RELATED PARTY TRANSACTIONS (CONTINUED)

Payables to related parties as at 31 December are as follows:

	<u>31.12.2010</u>	<u>31.12.2009</u>
<i>Advances received for sale of finished products</i>		
Main shareholder	<u>19,564</u>	<u>2,273</u>
<i>Loans</i>		
Main shareholder	<u>-</u>	<u>5,000</u>
<i>Payables for supplied materials, fuel and services</i>		
Other related parties	386	143
Subsidiaries	300	394
Main shareholder	38	40
	<u>724</u>	<u>577</u>
<i>Deposits</i>		
Subsidiaries	26	2
Other related parties	18	17
	<u>44</u>	<u>19</u>
Total	<u>20,332</u>	<u>7,869</u>

Remuneration of key managing personnel:

The members of the Company's key managing personnel are disclosed in Note 1.

	<u>2010</u>	<u>2009</u>
Salaries and other short-term benefits	859	873

37. EVENTS AFTER THE REPORTING PERIOD

At the date when the financial statements were approved for issue, the Company paid within the set terms the monthly instalments for January and February 2011, amounting to BGN 300 thousand, due under the Agreement for deferred payment of a liability to Bulgargas EAD (Note 24).

At the date of the financial statement, the accreditation of the National Plan for allocation of quotas for emissions trading in greenhouse gases, was recovered. The Company is able to trade in quotas in the European Union (Note 13) and performed sales of 70 thousand tons quotas at the amount of BGN 2,172 thousand.

At the date of the financial statements, the Company was approved to obtain financing under European programs for investment in production facilities at the amount of BGN 3,997 thousand.