*Translation from Bulgarian*

**DRUJBA GLASSWORKS AD**
ANNUAL ACTIVITY REPORT AND
STAND ALONE FINANCIAL STATEMENTS
31 December 2010

**DRUJBA GLASSWORKS AD**

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**DRUJBA GLASSWORKS AD**

**GENERAL INFORMATION**

**Board of Directors**

Dimitar Koev
Konstantinos Kavouras
Evangelios Voulgarakis
Teodoros Zitounis
Georgios Frangoulis
Nikolaos Georgopoulos
Christodoulos Tsilopoulos

**Executive Directors**

Nikolaos Georgopoulos
Christodoulos Tsilopoulos

**Finance Director**

Nikolay Mochev

**Chief Accountant**

Tzvetelina Valcheva

**Address**

No. 1 Professor Ivan Georgov Street
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**Legal Advisors**

Penkov, Markov and Partners OOD

**Servicing banks**

Piraeus Bank Eurobank AD
Eurobank EFG Bulgaria AD
United Bulgarian Bank AD
Emporiki Bank AD
ING Bank N.V.
Citi Bank, Sofia
SG Expressbank AD
UniCredit Bulbank AD

**Auditor**

Earnst and Young Audit OOD
Business Park Sofia, building 10, floor 2, Mladost 4
Sofia 1766

**DRUJBA GLASSWORKS AD**

**ACTIVITY REPORT**

for the year ended 31 December 2010

The management of Drujba Glassworks AD hereby present the Annual Activity Report for 2010 and Stand alone Annual Financial Statements for the year ended 31 December 2010, prepared in accordance with the International Financial Reporting Standards adopted by the European Union. The Financial Statements have been audited by Ernst and Young Audit OOD.

Introduction

Drujba Glassworks AD is a leading producer of glass packaging. The company was registered on December 27, 2004, with the merger of Stind AD (the city of Sofia) and Drujba AD (the town of Plovdiv). Drujba Glassworks AD (hereinafter referred to as "Drujba GW" or the "Company") has two production units, in the city of Sofia and the town of Plovdiv. The Company is a leading producer of glass bottles and jars for Bulgaria and the region. This Management Report provides additional information to the stand alone Financial Statements of Drujba Glassworks AD for 2010, prepared in accordance with the International Financial Reporting Standards adopted by the EU, as well as the development plans of the Company for 2011.

## Overview of activities

### General information

Drujba Glassworks AD manufactures and sells packaging glass and offers to its clients services related to the sale of its products.

In 2010 the Company's sales remained at their level of 2009. Net operating income amounts to 163,119 thousand BGN, (163,780 BGN in 2009). Drujba GW's gross profit marks a decrease of 9% compared to 2009, down to 33,950 thous. BGN (37,315 thous. BGN in 2009). The administrative costs and costs of sales in 2010 have increased from 14,262 thousand BGN in 2009 to 16,004 thousand BGN. The financial costs for the year decreased from 4,982 thousand BGN in 2009 to 4,109 thousand BGN in 2010. The other expenses have decreased from 5,578 thousand BGN to 2,918 thousand BGN in 2010. This drop compared to the prior period is due to the wastage and the impairment of inventories as reported in 2009, made with view of the continuing economic recession.

Drujba GW reports a decrease of profit before tax for 2010 with 7.8% compared to 2009 - 12,493 thousand BGN in 2010 compared to 13,548 in 2009.

### Sales

In 2010 Drujba GW's export sales of finished products and goods amount to 104,382 thousand BGN that is 64% of the total sales, while the sales for the Bulgarian market amount to 58,737 thousand BGN - 36% of the total revenues. The Company exports its products to over 20 countries in Europe and the region, whereas major foreign markets where Drujba GW sells its production are Greece, Serbia, Italy, United Kingdom, FYR Macedonia, Romania, Albania and Ukraine. Drujba GW is the major supplier of the international producers of beer and soft drinks in the region. On the Bulgarian market the Company retained its position of main producer of glass packaging for the international companies producing wine, alcoholic beverages, as well as the companies operating in the canning industry.

The total sales volumes in 2011 are expected to increase significantly compared to 2010.

**Production, raw materials, fuels and suppliers**

The total production in 2010 has decreased by 4% compared to the levels of 2009.

The decrease of production volumes is mainly due to the stopped furnace in Plovdiv site in July 2009. In May 2010 the company started repair works of the stopped furnace, which continued until January 2011. After the repair the furnace was again commissioned in the beginning of 2011.

In 2010 the prices of energy carriers on the Bulgarian market rose dramatically, with largest increase of the gas price – 5% in April and 24.6% in July. The annual average price of electricity in 2010 marked a 2.8% compared to the average prices in 2009 г. As of December 2010 the annual inflation in Bulgaria was 4.5%. Despite that, due to the Company's measures to optimize the costs and ensure more favourable prices of raw materials, the production costs in 2010 have dropped, thus resulting in a decrease of the cost price of a ton of products sold. Gas supplier of Drujba GW is Bulgargas. Electricity is supplied to the Company by EVN and CEZ Group, but it is also registered in the free market.

Basic raw materials for the manufacture of glass are soda, which the Company procures from USG Chemical Group - Romania and sand, supplied mainly by Kaolin AD and other local producers. Other raw materials used in the production process are limestone, dolomite, feldspar, and sulfate, which are also supplied by local producers. The main raw material for the manufacture of glass is broken glass, the so called crumbles. Drujba GW is a major processor of waste glass from glass packaging and works with all major organizations for waste collection and recycling. The Company operates an installation for treatment of crumbles in Plovdiv.

There have been no significant transactions beyond the ordinary operations of the Company.

Sales to and purchases from related parties are carried out according to the agreed terms and conditions. More information about these transactions can be found in the Annual Financial Statements of the Company. There are no judicial, administrative or arbitration cases related to receivables or liabilities of the Company at amounts exceeding 10% of its equity.

Drujba GW has the following interest in other companies:

Ambalazh Sofia-grad EOOD – Sofia – Drujba’s interest in the company is 100%;

Beluxen Enterprises Ltd. – Cyprus – Drujba’s interest in the company is 100%. On 15th December 2009 Drujba acquired 100% of the equity of Beluxen Enterprises Ltd. - Cyprus. On its part, Beluxen Enterprises Ltd. owns 100% of the equity of Hellenic Recycling Papayoanou EPE – Greece. Recycling Papayoanou EPE owns 74.27% of the equity of Srpska Fabrika za Reciklazhu - Republic of Serbia.

UBB Balanced Fund – Sofia – the Company has 100 shares of par value 100 BGN/share;

Ekobulpak AD - 0.3% of the equity.

Drujba GW has no branch network.

### Development activities

As a major manufacturer of glass packaging, the Group has a team of designers developing new products, mainly to meet our customers' requirements. Drujba GW is a leading innovator in this field. In 2010, the newly developed products are more than 100, and 85 of them (15 in Sofia and 70 in Plovdiv) were implemented in the production and are presented in the market through our customers.

### Quality Management Systems

The Company has developed and implemented an Integrated Management System, including Quality Management System, Food Safety Management System, Environmental Management System and Health and Safety at Work System. The certificates obtained: ISO 9001:2008 - Quality management systems (obtained in 2003 with recertification in 2006 and 2009), and ISO 22000:2005 - Food Safety Management Systems (obtained in 2005 with recertification in 2008 and 2011) are a recognition of the organizational progress of the Company, of the high level of standards met, of the guarantee provided by Drujba to its business partners, customers and suppliers, and of the market-oriented policies pursued by the management. In 2006, Drujba was certified under ISO 14001:2004 – Environmental Management Systems with recertification in 2009, and in January 2008 the Company was certified under OHSAS 18 001:2007, thus demonstrating its care about the environment and health and safety of its workers.

The certification body for all the four standards is Lloyd's Register Quality Assurance, a leading certification agency worldwide.

The recertification audit for OHSAS 18 001:2007 took place in January 2011, and recertification for ISO 22000:2005 was carried out in April. Three supervision audits took place in May 2011 - for ISO 9001, ISO 14001 and OHSAS 18001.

### Information related to the environment

After Bulgaria's accession to the EU, the country was included in the Greenhouse Gas Emissions Trading Scheme. The Company has the appropriate Emission trading permits issued by the Ministry of Environment and Water (MEW) for all its installations. According to the requirements of the permits, the Company monitors the $CO_2$ emissions and at present has a verification for 2010 carried out by Lloyd's Register Quality Assurance. The Emission quotas are recognized in the financial report as net liabilities for the entire period of five years, i.e. when actual emissions exceed the available quotas, the Company will account for the entire financial liability. On the basis of the development strategy of the Company and the modernization of manufacturing facilities, the Company does not expect to exceed the granted quotas by the end of the five-year period. At the date of this report the quotas for 2010 available on the account of the Company under the distribution plan of the country The Company has undertaken actions to reduce the amount of NOx emitted by bath furnaces.

The emissions are high due to the nature of the manufacturing process that runs at very high temperatures.

Pursuant to the terms of the Comprehensive permits (CP) in 2010 the Company continued to perform self-monitoring of emissions of waste gases and waters. The Management of Drujba GW has made a commitment and supports the activities necessary for environmental protection. The nature of our operation, being the manufacturing of the most healthy and harmless environmentally friendly packaging, obliges us to work in support of all environment protection activities. As of the date of preparation of this report, Drujba GW has obtained a new Comprehensive Permit KP 48-H1/2010 for its Plovdiv site in relation to the extension of the operation of one of the installations there.

**Personnel**

The average number of personnel employed in Drujba GW in 2010 has changed compared to 2009, as indicated in the following table:

| Average number of employees | 2009 | 2010 |
|---|---|---|
| Sofia | 216 | 214 |
| Plovdiv | 463 | 398 |
| TOTAL | 679 | 612 |

In 2009 the number of employees of Drujba GW was reduced, the main reasons for this being both stopping of a furnace at the Plovdiv site from operation, and the operation since 2008 of a new furnace with high-tech equipment. This resulted in significant personnel cost reduction compared to prior years. In 2010 the Company's management continued the process already underway of full review of the organization, which streamlined the operation and increased productivity. With view to the forthcoming commissioning in the beginning of 2011 of the repaired furnace in Plovdiv and the additional automated line in December 2010, the personnel was increased (443 persons by the end of December 2010).

**Planned investments**

Total investments in 2010 amounted to 19,546 thousand BGN (8,608 thousand BGN in 2009).

The major part of investments made in 2010 was related to the repair of the Plovdiv site that was stopped in 2009 and the design of new moulding sets. Investments in improvements to be made in 2011 are aimed primarily at increasing energy efficiency, reducing expenses, and environmental protection. All investments for improvements are financed with own funds.

**Capital resources**

**Long-term borrowings as at 31 December 2009**

International Financial Corporation (IFC)
(1) Amount of the loan – 8,600 thousand Euros (16,820 thousand BGN).

The maturity of the loan is 15 September 2015. The repayment shall be made in twelve instalments of 717 thousand Euros (1,402 thousand BGN). The interest of the loan is EURIBOR + margin.

(2) Amount of the loan – 2,000 thousand Euros (3,912 thousand BGN).

The maturity of the debt is 15 March 2011. The repayment shall be made in four equal instalments of 500 thousand Euros (978 thousand BGN) payable twice a year - on 15 March and 15 September for the period from 15 September 2009 through 15 March 2011. The interest of the loan is EURIBOR + margin. The loan is fully repaid as of the date of this report.

The existing long-term loans as at 31 December 2010 are for investments and are secured with pledges and mortgages of lands, buildings and equipment.

In September 2010 the Company finally repaid the remainder of the principal of a debt to the International Financial Corporation (IFC) whose initial amount was 20,000 thousand euro (39,117 thousand BGN).

**Short-term borrowings as at 31 December 2010**

(1) Amount of the loan – 7,500 thousand Euros (14,669 thousand BGN). The maturity of the loan is 30 September 2011. The interest of the loan is BIR + margin.

(2) Amount of the loan – 6,000 thousand Euros (11,735 thousand BGN). The maturity of the loan is 4 April 2011. The interest of the loan is EURIBOR + margin.

(3) Amount of the loan – 6,500 thousand BGN. The maturity of loan is 30 April 2011. The interest of the loan is SOFIBOR + margin.

(4) Amount of the loan: 14,000 thousand BGN. The maturity of the loan is 30 September 2011. The interest of the loan is SOFIBOR/EURIBOR + margin.

(5) Amount of the loan: 3,000 thousand Euros (5,867 thousand BGN). The maturity of the loan is 31 July 2011. The interest of the loan is EURIBOR + margin.;

(6) Amount of the loan: 4,000 thousand Euros (7,823 thousand BGN). The maturity of the loan is 28 February 2011. The interest of the loan is EURIBOR/SOFIBOR + margin.

(7) Amount of the loan: 4,000 thousand Euros (7,823 thousand BGN). The maturity of the loan is 18 November 2010. The interest of the loan is EURIBOR + margin.

As at 31 December 2011 the used short-term bank loans are secured by pledges of receivables and ready products amounting to 49,981 thousand BGN, fixed assets with carrying amount of 1,210 thousand BGN and a bank guarantee amounting to 650 thousands BGN.

**Guarantees undertaken**

Drujba GW, together with other subsidiaries of the Yioula Group has undertaken a guarantee under a long-term bond loan of Yioula Glassworks S.A., Greece. According to the terms and conditions of the guarantee, the companies act as sureties for the obligations of Yioula Glassworks S.A., Greece, arising from a bonded loan of total original value of 140,000 thousand Euros, amounting together with subsequent issues to 200,000 thousand Euros, at 9% annual interest rate with a maturity of 10 years (until 31 of December, 2015).

**Equity structure**

The registered share capital of Drujba GW amounts to 53,516,496 BGN and consists of 53,516,496 book-entry shares of par value 1 BGN each. The Company's capital has been fully paid and all shares are registered in the Shareholders register and are voting shares granting a right to vote in the General Meeting of Shareholders. The shares of the Company may be transferred only in the regulated market. The transfer of shares comes into effect at the time of their registration with the Central Depository AD. The Company has not acquired or transferred shares during the year and as of the date of this report. The Company does not hold its own shares. There are no classes of shares prohibited for trading in the Bulgarian or international markets. There are no restrictions regarding the transfer of shares or need of the Company's or any shareholder's consent to acquire or transfer shares, unless as required by the Bulgarian legislation. There are no shareholders with special control rights in the Company, and no restrictions with regard to the voting rights.

The structure of the shareholders is as follows:

| Shareholder | Number of shares | Par value in BGN | % interest |
|---|---|---|---|
| Barek Overseas Limited | 28,150,280 | 28,150,280 | 52.60% |
| Glassinvest Limited | 25,106,232 | 25,106,232 | 46.91% |
| Individuals | 204,715 | 204,715 | 0.39% |
| Entities | 55,269 | 55,269 | 0.10% |
| **TOTAL** | **53,516,496** | **53,516,496** | **100%** |

As has been stated above, Drujba GW was established upon the merger of Stind AD (Sofia) into Drujba AD (Plovdiv). Stind AD was established in 1931 and privatised in 1997 by Glavinvest Limited, and Drujba AD was established in 1962 and privatised in 1998 by Barek Overseas Limited. The table above shows the equity share of the shareholders in Drujba GW after the transformation of the two companies. The Company has no information on agreements between shareholders, which could result in any restrictions on the transfer of shares, voting rights, or the share capital structure. The Company has not issued any bonds.

**Information on the Board of Directors**

**Members**

Drujba GW has one-tier management system - a Board of Directors (BD). The Company is managed and represented by its Executive Directors Mr. Nikolaos Efstrarious Georgopoulos and Mr. Christodoulos Haridimous Tsilopoulos, jointly and severally. The Company is also represented by its procurator Mr. Athanasios Kotsikas. The members of the BD are as follows:

Dimitar Lazarov Koev - Chairman of the BD;

Nikolaos Efstrarios Georgopoulos - Member of the BD and Executive Director;

Christodoulos Charidimos Tsilopoulos - Member of the BD and Executive Director;

Konstantinos Georgios Kavouras - Member of the BD;

Evangelios Kiryakos Voulgarakis - Member of the BD;

Teodoros Evangelos Zitounis - Member of the BD;

Georgios Pantelis Fragoulis - Member of the BD

BD members are elected for a 5-year term of office and may be re-elected without limitation. As of the date of this report there are no changes in the membership of the Board of Directors of Drujba GW.

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BD members holding more than 25% of the equity of other companies are:

Dimitar Lazarov Koev – partner (50%) in Bulko Trading EOOD, Sofia;

Evangelios Voulgarakis - partner (33%) in Marco Property OOD, Sofia; partner (30%) in Euroglass EOOD, Sofia;

BD members involved in the management of other companies:

Dimitar Lazarov Koev – as manager of Euroglass OOD, Sofia.

BD members do not participate in any companies as unlimited liability partners. In 2009 members of the Board of Directors of Drujba GW have not acquired and/or transferred shares of the Company's equity. The rights of members of the BD for the acquisition of shares are not specifically regulated by the Articles of Association of the Company. BD members do not hold shares of the Company.

**Powers of the management bodies of the Company**

The Articles of Association of Drujba GW stipulate that the activities of the Board of Directors shall be regulated by Rules of Procedure of the BD. The Articles of Association of the Company do not provide for special procedures for buyback or issue of shares by the BD. As of the date of preparation of this report there have been no changes either of the main management principles of the Company, or the rules of procedure of the BD.

**Remunerations of the BD**

The remunerations of the members of the BD, Executive Directors and procurators in 2010 amounted to 301 thousand BGN (2009: 450 thousand BGN) and represent short-term income. There are no agreed remunerations with the members of the BD which are currently delayed or are not paid. There are no special arrangements for payment of compensations at retirement or upon leaving for any of the BD members the Company. There are no agreements between management bodies and the Company for payment of special compensations, except as provided by the Bulgarian legislation.

### Potential risks and challenges

### Risks associated with Company's operations

Possible challenges the Company may face are:

**Energy carrier prices** - In 2010 the energy carrier prices in Bulgaria have increased. The Company's management has developed and successfully implements an Energy efficiency program designed both to help reduce costs and protect the environment.

**Prices of raw materials and input materials** – The risk of price increase of main materials is related to both the increase of their prices and increase of the transport costs for the delivery. Basic raw materials are purchased mainly from local producers and neighbouring countries, spare parts and other raw materials are mainly imported. . To manage this risk the Company regularly analyzes the consumption of materials, and looks for new suppliers offering favourable trade terms.

**Glass production as uninterrupted process -** Recognizing the possible adverse effect that the suspension of production may have on the financial stability of the Company, the management of Drujba GW has extremely close working relationships with its suppliers. The main suppliers of Drujba have been the Company's counterparties for decades and this partnership continues to further develop. Besides, the Company has invested in various technological solutions, which should ensure the continuity of the production process in emergency cases.

**Highly qualified and professional personnel** - Drujba GW is a company, which uses top-notch technologies and has automated manufacturing process. The management recognizes the contribution of employees and the importance of improving their professionalism, training and motivation. In this regard, the Company continued the implementation of its Personnel development programs, to ensure opportunities for career development and training. The management team of Drujba GW is aware that the ambitious development program of the Company can and will be accomplished only with the active involvement of all employees and therefore their efforts are highly appreciated.

**Increasing requirements regarding the environment** – The production of glass is heavy industry, subject to norms, laws, rules and regulations for environmental protection. The Company meets all internal and external monitoring activities with maximum transparency and accuracy. The technical level of production equipment ensures compliance with the norms for environmental protection. An important element much effort is spent on is reducing the Nox emissions and for that purpose the Company has put in place an investment program. The Company employs a highly qualified environmentalist who ensures, with the support of all the personnel of Drujba GW, the implementation of all environmental protection measures.

**Impact of the global economic crisis –** The economic crisis resulted in a reduced demand for glass packaging. The registered drop of sales was expected by the management. As a result of its good positioning and anticipatory measures with regard to the expected consequences of the crisis, Drujba preserved its leading position as a supplier of glass packaging in Bulgaria and the region. The main competitive advantage of Drujba is the capacity to manufacture high quality products of diverse colours and shapes. Owing to this, the management believes the Company will keep its leadership position in the market.

### Financial risk

**Credit risk** - Drujba GW is exposed to a credit risk, which is associated with the risk of counterparts being unable to meet fully and in time their obligations. The financial assets are concentrated in two groups: cash and receivables from customers. The cash of the Company is concentrated in several first-class reputable commercial banks, which have stability on the market. The Company maintains long-term relationships with its creditors. In this respect, the risk associated with the Company's cash is very limited. The Company has a policy of accepting deferred payments from its customers. The collectability and concentration of receivables from customers is monitored on on-going basis in line with the established credit policy, which guarantees minimum risk of potential default by the customers. The current financial situation has increased that risk, due to the limited financial resources on the market. A major part of Drujba's customers, with the exception of multinational companies, are companies of long history operating in their respective markets for many years. The Company's Management works in strong collaboration with its customers.

**Liquidity risk** – The liquidity risk is the probability that the Company will be unable to meet unconditionally all its obligations at their maturity. The Company's core business is glass production, which is uninterruptible process. This requires the availability of sufficient stocks to ensure the continuity of the production process. There are two main features that influence the management of this risk: the seasonality of sales and deferred payment system used with the main customers. In addition, the on-going economic crisis causes greater uncertainty about the timely sale of the stock of finished products. The Company uses short-term credit borrowings to ensure the stability of its cash flows in "low" seasons.

**Currency risk** - A large portion of the customers and suppliers of the Company consists of foreign companies. The main part of the money exchange is in BGN and EUR. The Company also holds a minimum quantity of cash in a currency other than national currency or the Euro. There is a low currency risk arising mainly from the exchange rate of the British pounds and the U.S. dollars. Some purchases are negotiated in U.S. dollars, while sales in the UK are mainly in British pounds. To control this risk, the Company negotiates its deals with its international counterparts in Euro. Drujba does not use the hedging as a financial instrument.

**Interest rate risk** – The interest rate risk arises from fluctuations in the price of financial instruments depending on the changes in interest rate levels. The Company has no interest-bearing assets except cash in banks and therefore its revenue and operating cash flows are independent of changes in market interest rate levels. However, the Company is exposed to interest rate risk, since it uses long-term and short-term loans to finance its operations. The interest rates on these loans are usually with fixed margin over EURIBOR and SOFIBOR respectively for Euro and BGN loans, which poses a risk on the cash flows. To regulate this risk, the management of the Company constantly improves its relations with the servicing banks, which, together with the good financial results and prompt repayment of all liabilities to banks, allows the negotiation of better interest rates.

### Good corporate governance

As a public company, Drujba GW performs its business in accordance with the Law on public offering of securities, the regulations and requirements of the Financial Supervision Commission and following a Good Corporate Governance Program, hereinafter referred to as the "Program".

During their governance in 2010, the Executive Directors and members of the BD consistently and strictly followed and applied the principles of effective protection of shareholders' rights and their equal treatment. The rights and interests of all stakeholders have been respected. Timely and accurate information on financial performance, ownership and management during the year has been provided. The management of the Company has complied with the effective legislation, exercised effective management control on the operations, with a view to the interests of shareholders.

Investor Relations Director of the Company is Mrs. Maya Stankova, tel.: 032 908 512, e-mail: mstankova@drujba.bg

**Events occurred after the balance sheet date**

This report has been prepared according to the Bulgarian legislation and IFRS in force at 31 December 2010 with comparative data as at 31 December, 2009. The Activity Report is prepared as at 31 December 2011. Events after the balance sheet date include those arising in the period 1 January 2011 through the date of approval of the stand alone financial statements.

In the period after 1 January 2011 through the date of approval of the financial statements, the Company renewed the following short-term loans:

Extending the maturity date of a short-term loan of 6,000 thousand euro (11,735 thousand BGN) until 4 April 2012.

Extending the maturity date of a short-term loan of 6,500 thousand euro until 30 June 2011.

Extending the maturity date of a short-term loan of 4,000 thousand euro (7,823 thousand BGN) until 18 November 2011.

Extending the maturity date of a short-term loan of 4,000 thousand Euro (7,823 thousand BGN) until 28 February 2012 and increasing the amount of the approved loan to 5,000 thousand euro (9,779 thousand BGN).

In the end of February 2011 Drujba GW finalized the reconstruction of furnace 4 in Plovdiv.

In March 2011 Drujba GW made the last instalment of 985 thousand BGN under the matured loan from IFC, of total amount 2,000 thousand euro (3,912 thousand BGN).

Nikolaos Georgopoulos
*signed illegible*
Executive Director

27 May 2011

the city of Sofia

*letterhead of Ernst & Young*

# Independent Auditor's Report

## To the Shareholders

## of Drujba Glassworks AD

## Report on the stand alone financial statements

We have audited the accompanying stand alone financial statements of Drujba Glassworks AD, which comprise the stand alone balance sheet as of 31 December 2010, and the stand alone income statement, stand alone statement of comprehensive income, stand alone statement of changes in equity and stand alone statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the stand alone financial statements

Management is responsible for the preparation and presentation of stand alone financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted for use in the European Union, and for such internal control as management determines is necessary to enable the preparation of stand alone financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these stand alone financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the stand alone financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of stand alone financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the stand alone financial statements.

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

### Opinion

In our opinion, the stand alone financial statements give a true and fair view of the financial position of Drujba Glassworks AD as of 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.

### Report on other legal requirements

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4, we read the Annual Management Report accompanying the stand alone financial statements for 2010. In our opinion, the information given in the Annual Management Report is consistent with the accompanying annual stand alone financial statements as of 31 December 2010.

| | |
|---|---|
| *signed illegible* | *signed illegible* |
| Ioannis Mystakidis | Nikolay Garnev, CPA |
| Managing Partner | Registered Auditor |
| Earnst and Young Audit OOD | |

*seal of Specialized auditing company with reg. №108 "Ernst and Young Auidt" OOD*

13 June 2011

the city of Sofia, Bulgaria

**DRUJBA GLASSWORKS AD**

**STAND ALONE INCOME STATEMENT**

for the year ended 31 December 2010

| | Notes | 2010 | 2009 |
|---|---|---|---|
| | | '000 BGN | '000 BGN |
| Sale of finished products | | 144,696 | 152,823 |
| Sale of goods | | 10,092 | 1,765 |
| Rendering of services | | 8,331 | 9,192 |
| **Revenue** | 3.1 | **163,119** | **163,780** |
| Cost of sales | 3.2 | (129,169) | (126,465) |
| **Gross profit** | | **33,950** | **37,315** |
| Other income | 3.3 | 1,358 | 952 |
| Administrative expenses | 3.4 | (9,314) | (8,545) |
| Selling and distribution expenses | 3.4 | (6,690) | (5,717) |
| Other expenses | 3.5 | (2,918) | (5,578) |
| **Operating profit** | | **16,386** | **18,427** |
| Financial income | 3.7 | 216 | 103 |
| Financial costs | 3.8 | (4,109) | (4,982) |
| **Profit before tax** | | **12,493** | **13,548** |
| Income tax expense | 4 | (1,713) | (1,699) |
| **Profit for the year** | | **10,780** | **11,849** |
| **Basic earnings per share in BGN** | 5 | **0.20** | **0.22** |

*signed illegbile*
Nikolaos Georgopoulos
Executive Director

*signed illegbile*
Tzvetelina Valcheva
Chief Accountant

*seal of Drujba Glassworks AD, Sofia*

The Financial Statements were approved upon a decision of the Board of Directors dated 27 May 2011. The explanatory notes from page 19 to page 66 are an integral part of the Financial Statements.

*seal of Specialized auditing company with reg. №108 "Ernst and Young Auidt" OOD*

<u>Auditor's stamp:</u>
Financial Statements on which we have prepared an auditors' report, dated:
13-06-2010
Ernst & Young Audit OOD
Manager *signed illegible* Registered Auditor *signed illegible*

**DRUJBA GLASSWORKS AD**
**STAND ALONE STATEMENT OF COMPREHENSIVE INCOME**
for the year ended 31 December 2010

| | Notes | 2010 | 2009 |
|---|---|---|---|
| | | *'000 BGN* | *'000 BGN* |
| **Profit for the year** | | **10,780** | **11,849** |
| **Other comprehensive income** | | | |
| Profit/ (loss) from fair value re-measurement of available-for-sales investments | | - | 1 |
| **Other comprehensive income for the year, net of tax** | | **-** | **1** |
| **Total comprehensive income for the year, net of tax** | | **10,780** | **11,850** |

*signed illegbile*
Nikolaos Georgopoulos
Executive Director

*signed illegbile*
Tzvetelina Valcheva
Chief Accountant

*seal of Drujba Glassworks AD, Sofia*

The Financial Statements were approved upon a decision of the Board of Directors dated 27 May 2011. The explanatory notes from page 19 to page 66 are an integral part of the Financial Statements.

*seal of Specialized auditing company with reg. №108 "Ernst and Young Auidt" OOD*

<u>*Auditor's stamp:*</u>
Financial Statements on which we have prepared an auditors' report, dated:
13-06-2010
Ernst & Young Audit OOD
Manager *signed illegible* Registered Auditor *signed illegible*

**DRUJBA GLASSWORKS AD**

**STAND ALONE BALANCE SHEET**

as of 31 December 2010

| | Notes | 2010 | 2009 |
|---|---|---|---|
| **ASSETS** | | '000 BGN | '000 BGN |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 165,848 | 173,017 |
| Intangible assets | 7 | 330 | 532 |
| Investments in subsidiaries | 8 | 3,833 | 3,833 |
| Long-term receivables from subsidiaries | 19 | 339 | 892 |
| Available-for-sale investments | 9 | 14 | 14 |
| | | **170,364** | **178,288** |
| **Current assets** | | | |
| Inventories | 10 | 55,547 | 52,038 |
| Trade receivables | 11 | 42,990 | 38,852 |
| Receivables from related parties | 19 | 82,576 | 67,746 |
| Other receivables | 12 | 3,070 | 2,207 |
| Cash and short-term deposits | 13 | 1,277 | 597 |
| | | **185,460** | **161,440** |
| **TOTAL ASSETS** | | **355,824** | **339,728** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Issued capital | 14.1 | 53,516 | 53,516 |
| Share premium | 14.2 | 12,298 | 12,298 |
| Legal reserves | 14.2 | 1,329 | 1,329 |
| Other reserves | 14.2 | 2 | 2 |
| Revaluation reserves | 14.2 | 12,937 | 12,968 |
| Retained earnings | | 76,910 | 101,934 |
| **Total equity** | | **156,992** | **182,047** |
| | | | |
| **Non-current liabilities** | | | |
| Interest-bearing loans | 15 | 11,080 | 14,803 |
| Retirement benefit liability | 16 | 475 | 438 |
| Finance lease liability | 17 | 38 | 55 |
| Deferred tax liability | 4 | 8,504 | 9,955 |
| | | **20,097** | **25,251** |
| **Current liabilities** | | | |
| Trade payables | | 44,781 | 38,615 |
| Liabilities to related parties | 19 | 59,195 | 18,865 |
| Interest-bearing loans | 15 | 63,380 | 57,111 |
| Current portion of non-current interest-bearing loans | 15 | 3,909 | 12,796 |
| Finance lease liability | 17 | 24 | 110 |
| Income tax payable | | 3,164 | 682 |
| Other payables | 18 | 4,282 | 4,251 |
| | | **178,735** | **132,430** |
| **Total liabilities** | | **198,832** | **157,681** |
| **TOTAL EQUITY AND LIABILITIES** | | **355,824** | **339,728** |

*signed illegbile*
Nikolaos Georgopoulos
Executive Director

*signed illegbile*
Tzvetelina Valcheva
Chief Accountant

*seal of Drujba Glassworks AD, Sofia*

The Financial Statements were approved upon a decision of the Board of Directors dated 27 May 2011. The explanatory notes from page 19 to page 66 are an integral part of the Financial Statements.

*seal of Specialized auditing company with reg. №108 "Ernst and Young Auidt" OOD*

**DRUJBA GLASSWORKS AD**
**STAND ALONE BALANCE SHEET**
as of 31 December 2010

<u>*Auditor's stamp:*</u>
Financial Statements on which we have prepared an auditors' report, dated:
13-06-2010
Ernst & Young Audit OOD
Manager *signed illegible* Registered Auditor *signed illegible*

**DRUJBA GLASSWORKS AD**
**STAND ALONE STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2010

| | Issued capital | Share premium | Legal reserves | Other reserves | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | '000 BGN | '000 BGN | '000 BGN | '000 BGN | '000 BGN | '000 BGN | '000 BGN |
| | (Note 14.1) | (Note 14.2) | (Note 14.2) | (Note 14.2) | (Note 14.2) | | |
| **At 1 January 2009** | **53,516** | **12,298** | **1,329** | **1** | **12,968** | **106,675** | **186,787** |
| Profit for the year | - | - | - | - | - | 11,849 | **11,849** |
| Other comprehensive income | - | - | - | 1 | - | - | **1** |
| Total comprehensive income | - | - | - | 1 | - | 11,849 | **11,850** |
| Dividend distribution (Note 20) | - | - | - | - | - | (16,590) | **(16,590)** |
| **At 31 December 2009** | **53,516** | **12,298** | **1,329** | **2** | **12,968** | **101,934** | **182,047** |
| **At 1 January 2010** | **53,516** | **12,298** | **1,329** | **2** | **12,968** | **101,934** | **182,047** |
| Profit for the year | - | - | - | - | - | 10,780 | 10,780 |
| Other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | - | 10,780 | 10,780 |
| Dividend distribution (Note 20) | - | - | - | - | - | (35,835) | **(35,835)** |
| Other | **-** | **-** | **-** | **-** | (31) | 31 | **-** |
| **At 31 December 2010** | **53,516** | **12,298** | **1,329** | **2** | **12,937** | **76,910** | **156,992** |

*signed illegbile*
Nikolaos Georgopoulos

Executive Director

*signed illegbile*
Tzvetelina Valcheva

Chief Accountant

*seal of Drujba Glassworks AD, Sofia*

The Financial Statements were approved upon a decision of the Board of Directors dated 27 May 2011. The explanatory notes from page 19 to page 66 are an integral part of the Financial Statements.

*seal of Specialized auditing company with reg. №108 "Ernst and Young Auidt" OOD*

<u>*Auditor's stamp:*</u>
Financial Statements on which we have prepared an auditors' report, dated:
13-06-2010
Ernst & Young Audit OOD
Manager *signed illegible* Registered Auditor *signed illegible*

**DRUJBA GLASSWORKS AD**

**STAND ALONE STATEMENT OF CASH FLOWS**

for the year ended 31 December 2010

| | Notes | 2010 | 2009 |
|---|---|---|---|
| | | *'000 BGN* | *'000 BGN* |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Profit before tax** | | **12,493** | **13,548** |
| Adjustment to reconcile profit before tax to net cash flows | | | |
| Non-cash: | | | |
| Depreciation costs | 6, 7 | 24,789 | 26,147 |
| Profit and write-off of property, plant and equipment, net | 3.3, 3.5 | (169) | (21) |
| Change in doubtful debt allowance and write-off of receivables | 3.5 | 681 | 572 |
| Expenses for interest, fees and commissions | 3.8 | 3,928 | 4,985 |
| Scrap of inventories | 3.5 | 464 | 2,629 |
| Impairment of inventories | 3.5 | 177 | 1,232 |
| Expenses for retirement benefit liability | | 100 | 141 |
| Working capital adjustments: | | | |
| Increase in inventories | | (4,150) | (3,866) |
| Increase in receivables and advances paid | | (20,015) | (17,791) |
| Increase/(Decrease) in trade and other payables | | 13,779 | (1,904) |
| Interest, fees and commissions paid | | (4,198) | (5,196) |
| Income taxes paid | | (682) | (2,279) |
| Retirement benefit paid | | (63) | (301) |
| **Net cash flows from operating activities** | | **27,134** | **17,896** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 6 | (19,544) | (8,608) |
| Purchase of intangible assets | 7 | (31) | (38) |
| Proceeds from sale of property, plant and equipment | | 2,344 | 204 |
| Acquisition of subsidiary | 8 | - | (1,760) |
| **Net cash flows used in investing activities** | | **(17,231)** | **(10,202)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from short-term bank loans | | 50,913 | 45,010 |
| Repayment of short-term bank loans | | (44,576) | (42,603) |
| Repayment of long-term bank loans | | (12,510) | (8,683) |
| Decrease of finance lease liability | | (102) | (186) |
| Dividends paid | | (2,948) | (1,639) |
| **Net cash flows used in financing activities** | | **(9,223)** | **(8,101)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **680** | **(407)** |
| Cash and cash equivalents at 1 January | | 597 | 1,004 |
| **Cash and cash equivalents at 31 December** | 13 | **1,277** | **597** |

Nikolaos Georgopoulos — Tzvetelina Valcheva

Executive Director — Chief Accountant

The Financial Statements were approved upon a decision of the Board of Directors dated 27 May 2011. The explanatory notes from page 19 to page 66 are an integral part of the Financial Statements.

## 1. Corporate information

The Financial Statements of Drujba Glassworks AD (the "Company") for the year ended on 31 December 2010 were approved for publishing upon a decision of the Board of Directors dated 27 May 2010.

Drujba Glassworks AD is a Joint Stock Company, established upon ruling No. 14144/27.12.2004 of Sofia District Court, having its registered offices and principle place of business in Sofia, 1 Prof. Ivan Georgov Street. The financial year of the Company ends on 31 December. Drujba Glassworks AD is a public company, pursuant to the Public Offering of Securities Act.

The main business of Drujba Glassworks AD includes production of and trade in glass packaging.

The shareholders of Drujba Glassworks AD as at 31 December 2010 are, as follows:

- Barek Overseas Limited, Cyprus 52.60%
- Glassinvest Limited, Cyprus 46.91%
- Individuals 0.39%
- Legal entities 0.10%

Drujba Glassworks AD has one-tier management system with a Board of Directors consisting of 7 members. Chairman of the Board of Directors is Dimitar Koev. Drujba Glassworks AD is represented and managed by the Executive Directors: Nikolaos Georgopoulos and Christodoulos Tsilopoulos – jointly and severally.

The umbrella parent company is Yioula Glassworks S.A. - Greece.

### 2.1 Basis for preparation

The Financial Statements have been presented at historical cost, except for lands and investments available for sale, which are measured at fair value.

The Financial Statements are presented in Bulgarian levs and all indicators are rounded-up to the nearest thousand Bulgarian levs (thousand BGN), unless otherwise specified.

**Statement of compliance**
The Financial Statements of Drujba Glassworks AD have been prepared in accordance with the International Financial Reporting Standards, as adopted for use in the European Union (IFRS as adopted by the EU).

These Financial Statements are the stand alone statements of Drujba Glassworks AD, where the investments in subsidiaries are disclosed at acquisition price (cost).

In accordance with the requirements of IAS 27 Consolidated and Stand alone Financial Statements and Art. 37/Art. 37e of the Accountancy Act in force since 1 January 2007, Drujba Glassworks AD shall prepare and present consolidated financial statements. The Company will prepare and present by 30 June 2011 consolidated financial statements, in accordance with IFRS as adopted by the EU and the requirements of the Accountancy Act for the year ended 31 December 2010.

## 2.2 Summary of significant accounting policies

### a) Foreign currency translation

The Financial Statements are presented in Bulgarian levs, which is the functional currency and the presentation currency of the Company. Foreign currency transactions are initially stated in the functional currency based on the exchange rate as of the date of transaction. Monetary assets and liabilities denominated in foreign currencies are recalculated in the functional currency in the end of each month, based on the closing exchange rate of the Bulgarian National Bank for the last business day of the relevant month. All exchange rate fluctuations are posted in the Income Statement. Non-monetary assets and liabilities which are measured at historical cost in foreign currency, are translated in the functional currency based on the exchange rate as of the date of the initial transaction (acquisition). Non-monetary assets and liabilities which are measured at fair value in foreign currency, are translated in the functional currency based on the exchange rate as of the date of the measurement of the fair value.

### b) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The Company measures its selling arrangements based on specific criteria, in order to determine if it acts as a principal or as an agent. It has come to the conclusion that it acts as a principal to all such arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Sales of finished products and goods*
Revenue from sales of finished products and goods is recognised when the significant risks and rewards of ownership over the products and goods have been transferred to the buyer, usually on dispatch of the goods.

*Rendering of services*
Revenue from rendering of services is recognised by reference to the stage of completion as of the balance sheet date. Stage of completion is measured with reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the transaction (contract) outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

*Other income*
Revenues from other sales are recognised for the period in which they were realised..

*Interest income*
Interest income is recognised as interest accrues (using the effective interest rate, i.e. the interest rate that discounts exactly the estimated future cash flows over the estimated useful life of the financial instrument to the carrying amount of the financial asset). Interest income is included in the financial income in the income statement.

*Dividends*
Dividend income is recognised as the right to receive payment arises.

*Rental income*
Rental income as a result of operating lease is recognised on the straight line basis over the entire lease term.

## 2.2 Summary of significant accounting policies (continued)

### c) Taxes

*Current income tax*
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount of current taxes are those that are enacted or substantively enacted by the balance sheet date.

Current taxes are recognised directly to equity (not to the profit or loss for the period) if the tax relates to items which have been recognised directly in equity.

*Deferred income tax*
Deferred taxes are recognised using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences,

- except, where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- for taxable temporary differences related to investments in subsidiaries, affiliates and joint ventures, unless the Company is able to control the time of reverse effect of the temporary difference and it is possible the temporary difference not to appear again in foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised:

- except, where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- for deductible temporary differences related to investments in subsidiaries, affiliates and joint ventures, a deferred income tax asset is recognised only to the extent to which it is probable the temporary difference to appear again in foreseeable future and taxable profit to be gained against which the temporary difference will be utilised.

The company reviews the carrying amount of deferred income tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent it has become probable that future taxable profit will be gained, which would allow recovery of the deferred tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognized in other comprehensive income or in the equity capital where the tax relates to items that were recognized outside the profit for the period.

## 2.2 Summary of significant accounting policies (continued)

### c) Taxes (continued)

The Company sets off deferred income tax assets and liabilities only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income tax assets and liabilities relate to income tax imposed to the same taxable entity by the same taxation authority.

*Value added tax (VAT)*
Revenues, expenses and assets are recognised net of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

### d) Earnings per share

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

The weighted average number of shares is the number of ordinary shares outstanding 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. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period. In a capitalisation of reserves, bonus issues and other similar events that do not change the resources of the Company, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented. As a result, the number of ordinary shares and the earnings per share, respectively, are recalculated for the comparison period.

### e) Retirement benefit provisions

Employment and social insurance relations with the workers and employees of the Company are based on the provisions of the Labour Code, the applicable social insurance laws and the Collective Employment Agreement.

According to the Bulgarian legislation and the Collective Employment Agreement, the Company as an employer shall pay to its retiring employees compensations that, depending on the length of service at the enterprise, is between 2 and 7 gross monthly salaries as of the date of termination of the employment. The retirement benefit plan is not financed. The Company determines its obligations for payment of retirement benefits by using an actuarial method of evaluation, the projected unit credit method. Actuarial profits and losses are recognized as income or expense when the net cumulative non-recognized actuarial profits or losses at the end of the previous year have exceeded 10% of the current amount of the liability for retirement benefit payments. Actuarial profits or losses are recognized for the expected average remaining years of staff employment.

The past service cost is recognised as an a expense on a straight line basis until the benefits become vested. To the extent the benefits are already vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognised immediately by the Company.

## 2.2 Summary of significant accounting policies (continued)

### e) Retirement benefit provisions (continued)

The retirement benefit liability comprises the present value of the obligation to pay these benefits less past service cost and actuarial profits/losses not yet recognised.

### f) Financial instruments - initial recognition and subsequent measurement

- **Financial assets**

**Initial Recognition**

Financial assets within the scope of IAS 39 Financial instruments*:* recognition and measurement, are classified as financial assets, recognized at fair value in the profit or loss or as loans and receivables, or as investments held to maturity or as available for sale financial assets or as derivatives, determined as hedging instruments with an effective hedge, whichever is more appropriate. The Company determines the classification of its financial assets at their initial recognition.

All financial assets are initially measured at fair value plus, in case of investments that are not disclosed at fair value in the profit or loss, the costs of the transaction directly attributable to the financial asset.

Purchases and sales of financial assets, the terms and conditions of which require the transfer of the asset in a period of time usually established in the regulatory framework or the current practice in the respective market (regular purchases) are recognised on the date of the trade (transaction), i.e. the date on which the Company has committed itself to purchasing or selling the asset.

The Company's financial assets include cash and cash equivalents, trade receivables, granted loans and other financial assets (unquoted financial instruments).

**Investments in subsidiaries**

Investments in subsidiaries are measures in the stand alone financial statements of the Company at acquisition price (cost). Additional information is presented in Note 8.

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as with:

*Loans and receivables*

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial recognition, these financial assets are measured at amortized cost, using the effective interest rate (EIR) method, reduced with provision for impairment. The amortized cost shall be calculated taking into account all premiums and discounts at acquisition, as well as fees, which are an integral part of the EIR. The amortization of EIR is included in the financial income in the income statement. Impairment losses are recognized as financial costs in the Income Statement.

## 2.2 Summary of significant accounting policies (continued)

### f) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial assets (continued)**

**Subsequent measurement (continued)**

*Available-for-sale investments*
Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or not classified in any of the prior categories. After their initial recognition, the available for sale investments are measured at fair value and their non-realized profit or loss is recognized in the other comprehensive income. Part of the available for sale investments are in equity instruments of a company, which is not quoted in an active market (Note 9). Therefore the fair value of the investment cannot be reliably measured and it is accounted at acquisition price (cost). The interest received or paid for the investment is accounted as interest income or expense, using the effective interest rate method. Dividends from available for sale investments are recognized in the Income Statement as "Dividends received", when the right of the Company to receive payment has been established.

**Write-offs**
A financial asset (or, if applicable, part of a financial asset or group of similar financial assets) is derecognized when, and only when:

- the rights to the cash flows from the asset have expired;
- the contractual rights to receive cash flows from a financial asset are transferred or the Company has undertaken the obligation to fully pay the received cash flows with no significant delay to a third party through a transfer agreement, whereby (a) the Company has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained the control of the financial asset.

When the Company has transferred its contractual rights to receive cash flows from the financial asset and made a transfer agreement, and has neither transferred nor retained substantially all risks and rewards of ownership of the financial asset, but has retained the control of it, the Company continues to recognize the transferred financial asset to the extent of its continuing interest. In this case the Company recognizes also the accompanying liability. The transferred asset and the related liability are measured at a basis reflecting the right and obligations, which the Company has retained. The extent of continuing interest, which is in the form of a guarantee for the transferred asset, is measured at the lower of the initial carrying amount of the asset and the maximum amount of the compensation which the Company may be required to reimburse.

## 2.2 Summary of significant accounting policies (continued)

### f) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial assets (continued)**

**Impairment of financial assets**
The Company evaluates at each balance sheet date whether there are any objective proofs of impairment of any financial asset or groups of financial assets. A financial asset or a group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidences of impairment may include indications that a debtor or a group of debtors has serious financial difficulties, failure or delay of payment of interests and principal amount, probability of becoming insolvent or any other financial reorganization and, when observable data show that there is a measurable decrease in the estimated future cash flows, like changes in the delayed payments or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*
For financial assets carried at amortised value, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account for impairment provisions. The amount of the loss is recognised in the income statement. Interest income continues to accrue on the reduced carrying amount based on the original effective interest rate of the asset. Loans, along with the relevant impairments, are written off when there is no realistic perspective of their future recovery and the entire security has been realized or transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment recognition, the earlier recognized impairment loss is increased or decreased through an adjustment to the allowance account. If a future writing-off is recovered at a later stage, the recovery is recognized in the income statement.

The current value of estimated cash flows is discounted by using the initial effective interest rate of the financial asset. If a loan has a floating interest rate, the discount rate for the estimation of the impairment loss shall be the current effective interest rate.

## 2.2 Summary of significant accounting policies (continued)

### f) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial assets (continued)**

**Impairment of financial assets (continued)**

Trade receivables are impaired when there is objective evidence that the Company will not be able to collect all amounts due as specified in the initial conditions of the invoice. The carrying amount of trade receivables is reduced through the use of an allowance account for impairment provisions. Impaired receivables are written off when they have become uncollectible.

*Available-for-sale investments*

For the available-for-sale investments, the Company judges as of each reporting date if there is objective evidence that the investment or group of investments is impaired.

For capital investments of the Company classified as available for sale, the objective evidence includes a significant or continuous decrease in the fair value of the investment below the acquisition cost. This “significant decrease” should be assessed against the initial cost (acquisition price) of the investment, and the “continuous” is assessed against the period during which the fair value is below the initial acquisition price. Where there is evidence of impairment, the cumulative loss – assessed as the difference between the acquisition price and the present fair value less the impairment loss of this investment earlier recognised in the statement of other comprehensive income – is deducted from the other comprehensive income and is recognised in the income statement. Impairment losses of capital investments are not recovered through the income statement; increases in their fair value are recognised directly in other comprehensive income.

*Investments in subsidiaries*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the value that is estimated to be recovered thereof. Impairment losses are recognised in the profit or loss for the period. They shall not be reversed.

- **Financial liabilities**

**Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities reported at fair value through profit or loss or as loans and borrowings, or as derivatives determined as hedging instruments with effective hedge, as is more appropriate. The Company determines the classification of its financial liabilities at their initial recognition.

All financial liabilities are recognised initially at their fair value, and in case of loans and borrowings, minus the transaction costs directly related to the deal.

The financial liabilities of the Company include trade payables, interest-bearing loans and other financial liabilities.

## 2.2 Summary of significant accounting policies (continued)

### f) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial liabilities (continued)**

**Subsequent measurement**
The subsequent measurement of financial liabilities depends on their classification, as follows:

*Loans and borrowings*
After their initial recognition, loans and borrowings are measured at their amortized cost, using the EIR method. Profit and loss is recognised in the income statement when the liability is written off, as well as through the process of amortization. The amortized cost is calculated taking into account all premiums and discounts at acquisition, as well as fees or expenses, which are an integral part of the EIR. The amortization of EIR is included in the financial expenses in the income statement.

**Write-offs**
A financial liability is written-off when the liability has been extinguished, i.e. when the liability is discharged or cancelled or expires.

When an existing financial liability is replaced with another financial liability from the same creditor with substantially different terms or there is a substantial modification of the terms of an existing liability, this exchange or modification shall be accounted for as a write-off of the initial financial liability and a recognition of a new one and the difference between the respective carrying amounts shall be recognized in the income statement.

### g) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### h) Fair value of financial instruments

At each reporting date, the fair value of financial instruments actively traded in organised financial markets is determined on the basis of quoted market prices or quotes from dealers (“buying” price for long positions and "selling" price for short positions), without deducting the transaction costs.

The fair value of financial instruments for which no active market exists, is determined through appropriate measurement methods. These methods include using recent market transactions; reference to the current fair value of another instrument which is substantially similar; analysis of discounted cash flows or other measurement models.

Analysis of the fair values of financial instruments and additional data on the method used for their measurement is presented in Note 23.

## 2.2 Summary of significant accounting policies (continued)

## i) Issued capital

Issued capital is carried at par value of shares issued and subscribed by Drujba Glassworks AD. Proceeds from issued shares above their par value, if any, are carried at premium reserve.

## j) Shares bought back

The reacquired own equity instruments ("shares bought back") are deducted from equity. The Company recognizes neither gain nor loss on the purchase, sale, issue or retirement of its own equity instruments.

## k) Property, plant and equipment

Property, plant and equipment, except land, are recognized at acquisition price (cost), reduced with the accumulated depreciation and accumulated impairment losses. The acquisition price includes also the costs of replacement of parts of the machines and plant and costs for loans under long-term construction contracts, provided they meet the criteria for asset recognition. When costs are made for major review of machine and/or equipment, they should be included in the carrying amount of the relevant asset as costs of replacement, provided they meet the criteria for asset recognition. All other repair and maintenance costs are recognized in the Income Statement in the period of their occurrence.

The depreciation is calculated based on the straight-line method over the period of the assets' useful lives, as follows:

| | **2010** | **2009** |
|---|---|---|
| Buildings | 20 - 40 years | 20 - 40 years |
| Machines, plant and equipment | 5 - 20 years | 5 - 20 years |
| Vehicles | 6 - 8 years | 6 - 8 years |
| Computers | 4 years | 4 years |
| Fixtures and fittings | 6 - 7 years | 6 - 7 years |

Property, plant and equipment in process of construction represent unfinished capital investments and are measured at acquisition price (cost). They are not amortized until their finishing and/or deployment.

After their initial recognition, lands are measured at fair value, reduced with the accumulated impairment losses. Revaluations are performed frequent enough, so as to guarantee that the fair value of a certain revaluated asset does not differ significantly from its carrying amount.

The increase of the carrying amount of an asset due to revaluation is reported as revaluation reserve in the equity section of the Balance Sheet. The increase form revaluations though is recognized in the Income Statement insomuch as it is a reversal of a decrease from revaluation of the same asset, which was recognized before as expense in the Income Statement. The decrease of the carrying amount of an asset due to revaluation is recognized as expense in the Income Statement. The revaluation decrease though is directly accounted in the equity, reducing the revaluation reserve down to the credit balance of the revaluation reserve concerning this asset.

## 2.2 Summary of significant accounting policies (continued)

### k) Property, plant and equipment (continued)

Property, plant and equipment are written-off at sale or when no future economic benefit is expected from its use or disposal. Profit or loss incurred upon writing-off of the asset (calculated as the difference between the net revenues from the sale and its carrying amount) are accounted in the Income Statement for the year of writing-off, and its revaluation reserve is transferred to the retained earnings.

In the end of every financial year a review is carried out of the residual values, useful life and applied depreciation methods of the assets, and if the expectations differ from the previous estimates, the latter are changed in future periods, if appropriate.

### l) Leasing

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*The Company as a lessee*
Financial leases, transferring substantially to the Company all the risks and rewards of ownership on the financial asset, are recognized as an asset (capitalised) at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding lease liability, so as to produce a constant rate of interest on the remaining balance of the liability. The finance charges are recognised directly in the income statement.

Assets acquired under the terms of a finance lease are amortised over the useful life of the asset. If there is no reasonable certainty that the Company will acquire the ownership of such assets by the end of the lease contract term, the asset is amortised over the lesser of the useful life or the term of the lease contract.

Operating lease payments are recognised as an expense in the income statement based on the straight line method over the lease term.

*The Company as a lessor*
Lease contracts under which the Company retains substantially all the risks and rewards incidental to ownership of a leased asset is classified as operating leases. Initial direct costs incurred by the Company in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Contingent rents are recognised as income in the period in which they are earned.

### m) Loan costs

Loan costs related directly to the acquisition, construction or production of an asset, which inherently requires a significant period of time, in order to be prepared for its designated use or sale, are capitalized as part of the acquisition price of the relevant asset. All other loan costs are posted as expenses in the period of their occurrence. Loan costs include interest and other costs incurred by the Company and relating to the receipt of borrowings.

## 2.2 Summary of significant accounting policies (continued)

### n) Intangible assets

Intangible assets acquired stand alonely are initially measured at acquisition price (cost). After initial recognition, intangible assets are measured at cost less accumulated depreciation and accumulated impairment losses.

The useful life of intangible assets is defined as limited, as follows:

| | **2010** | **2009** |
|---|---|---|
| Software | 5 years | 5 years |

Intangible assets with limited useful life are depreciated over the period of their useful life and tested for impairment when there are indications that their value has been impaired. The depreciation period and the depreciation method for intangible assets with limited useful life are reviewed at least in the end of every financial year. The changes in the expected useful life or model of consumption of the future economic benefits of the intangible assets are taken into account through change of the depreciation period or method and treated as change in the accounting estimates. The costs of depreciation of intangible assets with limited useful life are classified based on their function in the Income Statement, in accordance with the use (purpose) of the intangible asset.

Profit or loss incurred due to the write-off of an intangible asset, representing the difference between the net revenues from the sale and the carrying amount of the asset, are recognized in the Income Statement upon write-off of the asset.

### o) Non-financial assets impairment

As at every reporting date, the Company assesses if there are indications that a certain asset has been impaired. When such indication exist or when an annual test for impairment of a certain asset is needed, the Company determines the recoverable value of this asset. The recoverable value of the asset is the higher of the fair value reduced with costs of sales of the asset or the cash-generating unit and its value in use. The recoverable value is determined for an individual asset in case that during the use of the asset no cash flows are generated, which are to a high extent independent of the cash flows generated by other assets or groups of assets. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

In determining the value in use of an asset, the estimated future cash flows are discounted to their present value, using a discount factor reflecting the current market value of the money in time and the risks specific for this asset. The fair value reduced with cost of sales is determined using an appropriate valuation model. The calculations are verified using other valuation methods, stock exchange prices of the shares of public subsidiaries or other available sources of information on the fair value of an asset or a cash-generating unit.

Impairment losses are recognized as other costs in the income statement, except for losses from impairment of property, which has been revaluated in prior periods and the increase from revaluation has been accounted for in the other comprehensive income. In such case the impairment loss is also accounted for in the comprehensive income, up to the amount of the earlier recognized revaluation of the asset.

## 2.2 Summary of significant accounting policies (continued)

### o) Non-financial assets impairment (continued)

At every reporting date the Company assesses if there are indications that the impairment loss for an asset, which was recognized in prior periods might not exist anymore or has decreased. If there are such indications, the Company determines the recoverable amount of the asset or the cash-generating unit. The impairment loss is reversed only when there has been a change of estimates, used in determining the recoverable amount of the asset after the recognition of the last impairment loss. The reversal of impairment loss is limited, so as the carrying amount of the asset should not exceed its recoverable amount or its carrying amount (after depreciation), which would have been determined, should the impairment loss for that asset had not been recognized in prior years. The reversal of an impairment losses is recognized in the income statement, except if the asset is being accounted with its revaluated amount, in which case the reversal is treated as an increase from revaluation.

### p) Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs made in relation to the supply of inventories to their current location and condition are carried as follows:

| | | |
|---|---|---|
| Inventories and goods | – | delivery cost at acquisition (purchase price of inventory/goods and delivery expenses) and weighted average value at consumption. |
| Finished products and work in progress | – | the cost of used direct materials, labour and variable and fixed general production costs allocated on the basis of a normal production capacity, excluding any loan costs. Direct production costs are allocated among stand alone products on the basis of planning indicators and normal capacity of production facilities. |

The net realisable value is the estimated sale price in the normal course of business less the approximate estimation of the costs of completion of the production cycle and costs required to effect the sale.

### q) Cash and cash equivalents

Cash and short-term deposits in the balance sheet include cash at bank accounts, in hands and short-term deposits with original maturity of three or less months.

For the purpose of the cash flow statement, cash and cash equivalents include cash and cash equivalents a defined above.

## 2.2 Summary of significant accounting policies (continued)

### r) Provisions

*General*
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and can make a reliable estimate of the amount of the obligation. When the Company expects reimbursement of some or all of the expenditure required to settle a provision, for example, through insurance contracts, the reimbursement is recognized as a stand alone asset but only when it is practically certain that such expenditure will be reimbursed. Expenditures for provisions are presented in the income statement net of the amount of reimbursed expenditures. When the effect of time differences in the cash value is substantial, provisions shall be discounted by using the current discount rate before taxes, which reflects the obligation-specific risks. When discounting is applied, the increase of the provision as a result of the time elapsed shall be presented as financial expenditure.

### s) Greenhouse gas (CO2) emission quotas

The greenhouse gas emission quotas (carbon dioxide, CO2) are carried through the "net passive method" according to which the Group recognizes as liability the CO2 emissions when they have been emitted and exceed the allocated quotas (according to the national plan of allocation of tradable quotas for greenhouse gas emissions). Greenhouse gas emission quotas that are acquired and exceed allocated quotas are recognized as an asset at acquisition price.

## 2.3 Changes in accounting policies and disclosures

**New and amended standards and interpretations**

The adopted accounting policies are consistent with those applied in the prior reporting period, except for the following new and amended IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect as of 1 January 2010:

- IFRS 2 *Share-based Payment: Group cash-settled share-based payment transactions,* in effect as of 1 January 2010.
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Stand alone Financial Statements (amendment)*, in force as of 1 July 2009, including the resulting amendments of IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement - Allowed Hedged Items*, in force as of 1 July 2009.
- *IFRIC 17 - Distributions of Non-cash Assets to Owners* in force as of 1 July 2009.
- Improvements of IFRS (May 2008 and April 2009)

## 2.3 Changes in accounting policies and disclosures (continued)

### New and amended standards and interpretations (continued)

The implementation of these standards and interpretations is described below:

***IFRS 2 Share-based Payment (revised)***
IASB issued amendments to IFRS 2 that clarify the scope and accounting for group cash-settled share-based payment transactions. The Company applies this amendment since 1 January 2010. It has no effect on the financial position or the financial results of its operations.

***IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Stand alone Financial Statements (amendment)***
IFRS 3 (revised) introduces significant changes in the accounting for business combinations, effected after its enforcement. These changes concern the measurement of non-controlling interests, accounting for the acquisition costs, initial recognition and subsequent measurement of contingent consideration, as well as business combinations achieved in stages. These changes will have an effect on the value of the recognized goodwill, the reported operational results for the period of the business combination and for future periods.

IAS 27 (amendment) requires that a change in the ownership interest of a subsidiary (except loss of control) is accounted for as an equity transaction with owners. Therefore, such transactions lead neither to creation of goodwill, nor to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary, as well as the loss of control of a subsidiary. The changes of IFRS 3 (revised) and IAS 27 (amendment) have effect on the acquisition or loss of control on subsidiaries and transactions with non-controlling interest, made after 1 January 2010.

These stand alone financial statements of the Company are not affected by these changes.

**IAS 39 *Financial Instruments: Recognition and Measurement - Allowed Hedged Items***
The amendment explains that an entity is allowed to determine some changes in the fair value or the volatility of cash flows on a financial instrument as a hedged item. This covers also the determination of inflation as a hedged risk or part of it in specific situations. This amendment does not affect the financial position of the Company and its financial results from operations, since it is not a party of such hedges.

**IFRIC 17 - Distributions of Non-cash Assets to Owners**
This clarification provides guidelines regarding the accounting of agreements, whereby an entity distributes non-cash assets to owners in the form of allocation of reserves or of dividends. This clarification neither affects the financial position of the Company, nor its operational results.

## 2.3 Changes in accounting policies and disclosures (continued)

**New and amended standards and interpretations (continued)**

***Improvements of IFRS***

In May 2008 and April 2009 IFRIC published a set of amendments in the standards, mainly to eliminate inconsistencies and clarify the wording therein. There are individual transitional provisions for each standard. The amendments listed below have no effect on the adopted accounting policies, the financial position or the financial results from Company operations.

-IFRS 2 *Share-based Payment*
-IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
-IFRS 8 *Operating segments*
-IAS 1 *Presentation of Financial Statements*
-IAS 7 *Cash Flow Statements*
-IAS 17 *Leases*
-IAS 34 *Interim Financial Reporting*
-IAS 36 *Impairment of Assets*
-IAS 38 *Intangible Assets*
-IAS 39 *Financial Instruments: Recognition and Measurement*
-IFRIC 9 *Reassessment of Embedded Derivatives*
-IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

**Reclassifications**

Some reclassifications have been made with the comparative information for 2009 included in the stand alone balance sheet and the cash flow statement, in order to achieve consistency with the presentation of the current reporting period.

## 2.4.Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires from the management to make judgments, estimates and assumptions that affect the value of accounted assets and liabilities and the disclosure of contingent liabilities as of the balance sheet date, as well as the accounted income and expenses for the period. The uncertainties related to the assumptions and estimates made, could lead to actual results requiring major adjustments of the carrying amounts of the respective assets or liabilities during the coming reporting periods.

### Judgments

While applying the adopted accounting policies, apart of the estimates and assumptions made, the management of the Company made the following judgments, which may have a significant effect on the amounts recognized in the Financial Statements:

## 2.4.Significant accounting judgments, estimates and assumptions (continued)

### Judgments (continued)

*Greenhouse gas (CO2) emission quotas*
Due to the lack of standard or explanation regulating the accounting for quotas for greenhouse gas emissions, the Company analyzed the possible accounting policies applicable to the industry and adopted the "net liability method", which is described in detail in Note 2.2 s) above.

*Greenhouse gas (CO2) emission quotas (continued)*
Based on a detailed analysis of the conditions of the national plan for distribution of trading quotas for greenhouse gas emissions, the Company's management judged that an excess over the distributed quotas exists when the cumulative actual emissions exceed the total quantity of quotas, distributed to the Company for the entire five-year period. As a result the Company will recognize a liability for this excess during the reporting period when it occurs. Since the cumulative actual emissions as at 31 December 2010 do not exceed total quantity of quotas, distributed over the entire five-year period, no liability has been recognized in these Financial Statements.

Based on the measurements made and the modernization of manufacturing equipment, the Company does not expect to exceed the distributed quotas within the five-year period.

### Estimates and assumptions

The main assumptions related to future and other major sources of uncertainties in the estimates as at the balance sheet date and for which a significant risk exists that they could cause substantial adjustments of the assets and liabilities during the next reporting period, are presented below.

*Retirement benefit provisions*
The liability concerning retirement benefit provisions is determined by an actuarial assessment. This assessment calls for assumptions as to the discount rate, the future increase in wages, personnel turnover and mortality rates. Due to the long-term nature of retirement benefits, these assumptions are an object of substantial uncertainty. As at 31 December 2010, the Company's liability regarding retirement benefits amounts to 475 thousand BGN (2009: 438 thousand BGN). Additional information concerning retirement benefit provisions is presented in Note 16.

*Useful lives of property, plant and equipment and intangible assets*
The financial reporting of property, plant and equipment and intangible assets includes the use of estimates about their expected useful lives and residual values, based on judgments by the Company's management. The information about useful lives of property, plant and equipment is presented in Note 2.2. k), and of intangible assets - in Note 2.2 n).

*Impairment of receivables*
The Company uses an adjustment account to account for impairment provision for doubtful receivables from customers. The management judges the adequacy of this provision based on age analysis of receivables, the historical experience on the level of writing-off of doubtful receivables, as well as on analysis of the solvency of the respective customer, changes of agreed payment terms, etc. If the financial status and results from operations of the customers aggravate (more than expected), the value of receivables to be written-off during coming reporting periods, might be higher than the one expected at the balance sheet date. As at 31 December 2010, the best judgment of the management regarding the necessary impairment of receivables amounts to 2,008 thousand BGN (2009: 1,447 thousand BGN). Additional information is presented in Notes 11 and 12.

## 2.4. Significant accounting judgments, estimates and assumptions (continued)

### Estimates and assumptions (continued)

*Impairment of inventories*
The Company recognizes impairment of obsolete and idle inventory down to their net realizable value. The determining of the impairment requires that the management make a judgment about the turnover of inventories and their potential realization by their use in production, sale and internal transfers. As at 31 December 2010 the best judgment about the necessary impairment for obsolete and idle inventory amounts to 482 thousand BGN (2009: 1,601 thousand BGN). Additional information is presented in Note 10.

*Fair value of lands*
The fair value of lands is determined based on a valuation by independent valuators. In determining the market values, different valuation methods are used and the specific features of the real estate market in Bulgaria are analyzed. The assumptions made in the preparation of valuations contain uncertainty.

## 2.5. Published standards not yet come into effect

The published standards that are not yet in effect as of the date of issue of the stand alone financial statements of the Company are listed below. This is a list of published standards and interpretations, for which the Company reasonably expects to be applicable as of certain future date. The Company intends to apply them after they come into effect.

***IAS 12 Income Taxes (amendment)***
This amendment provides a practical solution for the problem regarding determination whether the assets measured using the fair value model in accordance with IAS 40 Investment properties are recoverable by their use or sale. The amendment is in force for annual periods beginning on or after 1 July 2011. The Company does not expect this amendment to impact its financial position and operational results. The amendment has not yet been adopted by the EU.

***IAS 24 Related Party Disclosures (amendment)***
The amendment is in force for annual periods beginning on or after 1 January 2011. It clarifies the definition of related party in order to simplify the identification of such relations and eliminate the inconsistencies in its application. The revised standard introduces a partial relief from disclosure requirements for state-owned entities. The Company does not expect this amendment to impact its financial position or operational results.

***IAS 32 Financial Instruments: presentation - Classification of Rights Issues (amendment)***
The amendment of IAS 32 is effective for annual periods beginning on or after 1 February 2010. It introduces a change in the definition of a financial liability to classify rights issues (and some options or warrants) as equity instruments, when these rights are granted in proportion to all existing owners of the same class of non-derivative equity instruments of the entity or in case of acquisition of a fixed number of own equity instruments of the entity for a fixed amount in any currency. This amendment will not have effect on the financial statements of the Company after its initial application.

## 2.5. Published standards not yet come into effect (continued)

***IFRS 7 Financial Instruments: Disclosure (amendments)***
The amendments improve the disclosure requirements regarding transferred financial assets. They are effective for annual periods beginning on or after 1 July 2011. The Company is of the opinion that these amendments will not have any effect on its financial statement. They are not yet adopted by the EU.

***IFRS 9 Financial Instruments: Classification and Measurement***
IFRS 9 as published reflects the first stage of the work of the IASB to replace IAS 39 and is applicable to the classification and measurement of financial assets, as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent periods IASB will develop a classification and measurement of financial liabilities, hedge accounting and derecognition. This project is expected to finish in the beginning of 2011. The Company is in process of assessing the effects of IFRS 9 on its financial position and operational results. The standard has not yet been adopted by the EU.

***IFRIC 14 Prepayment of Minimum Funding Requirement (amendment)***
The amendment if IFRIC 14 comes in effect for annual periods beginning on or after 1 January 2011 and requires a retrospective application. It provides guidance on measuring the recoverable amount of a net pension asset. The amendment allows the prepayment of the minimum funding requirement to be treated as an asset. The Company is of the opinion that this amendment will not have any effect on its financial statement.

***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments***
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor in order to extinguish a financial liability, meet the requirements of a paid consideration. The equity instruments issued are measured at fair value. If fair value is not reliably determinable, the instruments are measured at the fair value of the liability extinguished. The resulting profit or loss is recognised immediately in the current financial result. The application of this interpretation will have no effect on the Company's financial statements.

***Improvements of IFRS (published in May 2010)***
IASB published *Improvements of IFRS,* representing a set of amendments of IFRS. They have not been applied, since they come in force for annual periods beginning on or after 1 July 2010 or 1 January 2011. The Company does not expect these amendments to impact its financial position and operational results.

# 3. Revenues and expenses

## 3.1 Revenues from sales of products and goods and rendering of services

*a) Geographic information*

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Bulgaria | 58,737 | 57,914 |
| Greece | 35,714 | 45,388 |
| Serbia | 20,128 | 14,418 |
| Italy | 15,999 | 7,395 |
| Other (less than 10% of turnover) | 32,541 | 38,665 |
| | **163,119** | **163,780** |

*b) Sales information – domestic market and export*

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Internal market | 58,737 | 57,914 |
| Export | 104,382 | 105,866 |
| | **163,119** | **163,780** |

*c) Information on major customers*

In 2010 the Company has no customers representing more than 10% of all revenues (2009: customer 1 - 18,673 thousand BGN).

## 3.2 Cost of sales

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Cost of materials recognized as expense | (30,347) | (32,922) |
| Depreciation of property, plant and equipment | (21,050) | (22,158) |
| Depreciation of intangible assets | (214) | (224) |
| Staff costs | (9,264) | (9,734) |
| Other expenses | (50,037) | (50,294) |
| Cost of rendered services (transport, decoration and others) | (9,411) | (9,484) |
| Book value of goods sold | (8,846) | (1,649) |
| | **(129,169)** | **(126,465)** |

## 3. Revenues and expenses (continued)

### 3.3 Other income

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Profit from sale of materials | 447 | 389 |
| Income from other services | 248 | 304 |
| Liabilities written-off | 279 | 68 |
| Profit from disposal of property, plant and equipment | 215 | 24 |
| Other income | 169 | 167 |
| | **1,358** | **952** |

### 3.4 Administrative expenses and selling and distribution costs

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Staff costs (including social benefits) | (2,661) | (2,773) |
| Other hired services | (3,302) | (2,407) |
| Costs of product marketing | (2,231) | (2,120) |
| Depreciation of plant and equipment | (3,027) | (2,517) |
| Rents | (1,070) | (992) |
| Consumables | (1,010) | (725) |
| Insurance | (589) | (686) |
| Local taxes and other fees | (272) | (274) |
| Maintenance and regular repairs | (351) | (406) |
| Public utility services | (319) | (451) |
| Business trips and other transport expenses | (251) | (212) |
| Bank commissions | (134) | (134) |
| Advertisement costs | (52) | (18) |
| Donations | (17) | (47) |
| Subscriptions | (20) | (17) |
| Other expenses | (698) | (483) |
| | **(16,004)** | **(14,262)** |

The above expenses are allocated as administrative expenses and selling and distribution costs, as follows:

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Administrative expenses | (9,314) | (8,545) |
| Selling and distribution costs | (6,690) | (5,717) |
| | **(16,004)** | **(14,262)** |

## 3. Revenues and expenses (continued)

### 3.5 Other expenses

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Scrap of inventories | (464) | (2,629) |
| Receivables written-off | (119) | (572) |
| Liquidation and wastage of plant and equipment | (64) | (3) |
| Paid fines and penalties | (186) | (130) |
| Impairment of doubtful receivables, including written-off impairment of receivables written-off, net | (618) | (347) |
| Inventory impairment losses (Note 10) | (177) | (1,232) |
| Other expenses and provisions | (1,290) | (665) |
| | **(2,918)** | **(5,578)** |

### 3.6 Staff earnings

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Remunerations | (9,734) | (10,189) |
| Social security | (2,266) | (2,035) |
| Social benefits and training | (933) | (940) |
| Expenses on retirement benefit provisions (Note 16) | (100) | (141) |
| | **(13,033)** | **(13,305)** |

### 3.7 Financial income

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Interest income from long-term receivables from subsidiaries | 81 | 60 |
| Interest income from bank accounts and deposits | 2 | 5 |
| Gains from exchange rate fluctuations | 133 | 38 |
| | **216** | **103** |

### 3.8 Financial expenses

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Interest expense for long-term bank loans | (572) | (1,327) |
| Interest expense for short-term bank loans | (2,757) | (2,835) |
| Fees and commissions | (272) | (233) |
| Losses from exchange rate fluctuations | (180) | 3 |
| Others (interest for trade payables) | (316) | (580) |
| Financial expenses for financial leasing contracts | (12) | (10) |
| | **(4,109)** | **(4,982)** |

## 4 Income Tax

The main components of the expense for income tax for years ended on 31 December 2010 and 31 December 2009 are:

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| **Current income tax** | | |
| Expense for current income tax | (3,164) | (2,102) |
| **Deferred income tax** | | |
| Related to the occurrence and reversal of temporary differences | 1,451 | 403 |
| **Expense for income tax accounted in the Income Statement** | **(1,713)** | **(1,699)** |

The applicable income tax rate for 2010 is 10% (2009: 10%). In 2011 the applicable tax rate remains unchanged (10%).

The reconciliation between the income tax and the accounting profit multiplied by the applicable tax rate for the years ended on 31 December 2010 and 31 December 2009 is as follows:

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Profit before tax | **12,493** | **13,548** |
| Income tax expense multiplied by the applicable tax rate of 10% for 2010 (2009: 10%) | (1,249) | (1,355) |
| Expenses, not recognized for tax purposes | (451) | (346) |
| Income not subject to taxation | 6 | 12 |
| Other | (19) | (10) |
| **Income tax expense at effective tax rate of 13.71% (2009: 12.54%)** | **(1,713)** | **(1,699)** |

## 4 Income Tax (continued)

Deferred taxes as at 31 December 2010 and 31 December 2009 are related to the following:

| | Balance Sheet | | Income Statement | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| **Deferred tax liability** | | | | |
| Property, plant and equipment | (8,938) | (10,348) | 1,410 | 362 |
| | (8,938) | (10,348) | | |
| **Deferred tax assets** | | | | |
| Impairment of inventories | 48 | 160 | (112) | 49 |
| Impairment of trade and other receivables | 207 | 145 | 62 | 35 |
| Other accrued expenses and provisions | 93 | - | 93 | |
| Allowances for unused annual leaves | 81 | 86 | (5) | (35) |
| Retirement benefit provisions | 5 | 2 | 3 | (8) |
| | 434 | 393 | | |
| **Deferred tax income** | | | **1,451** | **403** |
| **Deferred tax liabilities, net** | **(8,504)** | **(9,955)** | | |

## 5 Earnings per share

The basic earnings per share are calculated by dividing the annual profit to the average weighted number of common shares held during the period.

The basic earnings per share of the Company is calculated based on the following data:

| | 2010 | 2009 |
|---|---|---|
| Net profit for the year (thous. BGN) | 10,780 | 11,849 |
| Total number of common shares (thousands) | 53,516 | 53,516 |
| **Basic earnings per share (in BGN)** | **0.20** | **0.22** |

There have been no transactions with common shares or potential common shares for the period covering the balance sheet date until the date of the approval of the Financial Statements for publishing.

There are no instruments issued that may cause a potential decrease of the value of earnings per share.

## 6 Property, plant and equipment

| | Lands | Buildings and adjacent assets | Machines, plant and equipment | Vehicles | Other | Costs of acquisition and advances paid | Total |
|---|---|---|---|---|---|---|---|
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| **Book value (acquisition price or fair value)** | | | | | | | |
| **At 1 January 2009** | **15,971** | **60,603** | **275,605** | **5,026** | **1,159** | **13,080** | **371,444** |
| Acquisitions | - | - | 372 | - | - | 8,236 | 8,608 |
| Transfers | - | 417 | 7,502 | - | 6 | (7,925) | - |
| Disposals | - | - | (3,269) | (183) | (1) | (42) | (3,495) |
| **At 31 December 2009** | **15,971** | **61,020** | **280,210** | **4,843** | **1,164** | **13,349** | **376,557** |
| Acquisitions | - | - | - | - | - | 19,546 | 19,546 |
| Transfers | - | 73 | 6,839 | 100 | 23 | (7,035) | - |
| Disposals | - | (22) | (3,493) | (6) | (61) | (273) | (3,855) |
| **At 31 December 2010** | **15,971** | **61,071** | **283,556** | **4,937** | **1,126** | **25,587** | **392,248** |
| | | | | | | | |
| **At 1 January 2009** | - | **(30,077)** | **(146,516)** | **(3,708)** | **(702)** | **-** | **(181,003)** |
| Accrued depreciation for the year | - | (1,096) | (24,228) | (442) | (140) | - | (25,906) |
| Written-off | - | - | 3,186 | 182 | 1 | - | 3,369 |
| **At 31 December 2009** | **-** | **(31,173)** | **(167,558)** | **(3,968)** | **(841)** | **-** | **(203,540)** |
| Accrued depreciation for the year | - | (1,101) | (22,992) | (350) | (113) | - | (24,556) |
| Written-off | - | 7 | 1,664 | 6 | 19 | - | 1,696 |
| **At 31 December 2010** | **-** | **(32,267)** | **(188,886)** | **(4,312)** | **(935)** | **-** | **(226,400)** |
| | | | | | | | |
| **Carrying amount** | | | | | | | |
| **At 31 December 2010** | **15,971** | **28,804** | **94,670** | **625** | **191** | **25,587** | **165,848** |
| **At 31 December 2009** | **15,971** | **29,847** | **112,652** | **875** | **323** | **13,349** | **173,017** |
| **At 1 January 2009** | **15,971** | **30,526** | **129,089** | **1,318** | **457** | **13,080** | **190,441** |

### Idle assets

As at 31 December 2010 the carrying amount of temporary idle machines and equipment is 6,084 thousand BGN (31 December 2009: 9,182 thousand BGN). These include machines and equipment amounting to 6,083 thousand BGN (31 December 2009: 9,179 thousand BGN) and other assets amounting to 1 thousand BGN (31 December 2009: 3 thousand BGN). In addition, acquisition costs include "frozen" sites with carrying amount 3,837 thousand BGN (2009: 10,731 thousand BGN).

The management plans regarding these assets are to reconstruct and afterwards use part of them and sell others above their carrying amount. Since this is expected to cause the idle assets to recover their carrying amounts, the recognition of impairment loss in the Financial Statements above the one recognized in 2007, amounting to 291 thousand BGN, is not considered necessary.

## 6. Property, plant and equipment (continued)

### Impairment of property, plant and equipment

In view of the deteriorated current market situation and the above-mentioned idle assets, the company performed a fixed assets impairment test as of 31 December 2010. Since the management has the intention to recover the value of the assets by using them in the activities of the company, the above impairment test was completed at the level of cash flow generating item (CFGI), representing the entity as a whole, i.e. as an aggregate of all its assets and liabilities. Its recoverable amount is determined as a value in use, using a discount factor of 11.4% and a residual (terminal) amount of 2.24%. The value in use of the CFGI does not exceed the carrying amount as of 31 December 2010, hence the company has not recognized impairment in relation to fixed tangible assets.

### Acquisition costs

The acquisition costs include:

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Production facilities | 1,214 | 8,770 |
| Production equipment | 134 | 2,136 |
| Production machines | 19,728 | 601 |
| Advances granted and others | 1,792 | 979 |
| Warehouses and production buildings | 2,719 | 863 |
| | **25,587** | **13,349** |

As at 31 December 2010 the carrying amount of the non-current tangible assets held under the terms of a financial lease is 142 thousand BGN (2009: 373 thousand BGN).

As at 31 December 2010 mortgages on land and buildings with carrying amount 20,805 thousand BGN and pledges on machines and equipment with carrying amount 24,654 thousand BGN were established in relation to received loans (Note 15).

### Land revaluation

As at 31 December 2010, following a review by an independent licensed valuator Engineeringservice OOD – the city of Sofia, it was found that there are no substantial changes on the industrial properties market during 2010, in the region of the land owned by the Company. Based on that review the Company decided that no adjustment is needed of the valuation carried out as at 31 December 2007 of the lands owned by Drujba Glassworks AD.

The fair value of assets has been determined using the market analogue method, based on monitored prices in the active market. The main assumption of the assessment is the continuing use of the land, i.e. that it will be used in the future for the same purpose.

If the land was measured using the acquisition price model, its carrying amounts would have been as follows:

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Acquisition price | 1,560 | 1,560 |
| **Net carrying amount** | **1,560** | **1,560** |

## 7 Intangible assets

| | Software | Costs of acquisition of intangible assets | Total |
|---|---|---|---|
| | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| **Book value** | | | |
| **At 1 January 2009** | **2,463** | **96** | **2,559** |
| Acquisitions | - | 38 | 38 |
| Disposals | - | - | - |
| **At 31 December 2009** | **2,463** | **134** | **2,597** |
| Acquisitions | 31 | - | 31 |
| **At 31 December 2010** | **2 494** | **134** | **2 628** |
| **Accumulated Depreciation** | | | |
| **At 1 January 2009** | **(1,824)** | - | **(1,824)** |
| Accrued depreciation for the year | (241) | - | (241) |
| Written-off depreciation | - | - | - |
| **At 31 December 2009** | **(2,065)** | - | **(2,065)** |
| Accrued depreciation for the year | (233) | - | (233) |
| Written-off depreciation | - | - | - |
| **At 31 December 2010** | **(2,298)** | - | **(2,298)** |
| **Carrying amount** | | | |
| **At 31 December 2010** | **196** | **134** | **330** |
| **At 31 December 2009** | **398** | **134** | **532** |
| **At 1 January 2009** | **639** | **96** | **735** |

The Company made a review for impairment of intangible assets as at 31 December 2010. No indicators were found that the carrying amount of the assets exceeds their recoverable amount, therefore no impairment loss has been recognized in the Financial Statements.

## 8 Investments in subsidiaries

| Company | % share | Country of establishment | 2010 | 2009 |
|---|---|---|---|---|
| | | | *'000 BGN* | *'000 BGN* |
| *Investments at cost* | | | | |
| Ambalazh - Sofia Grad EOOD | 100% | Bulgaria | 2,073 | 2,073 |
| Beluxen Enterprises Ltd. | 100% | Cyprus | 1,760 | 1,760 |
| | | | **3,833** | **3,833** |

On 15 December 2009, based on an agreement between Crestdram Holdings Limited, British Virgin Islands and Drujba Glassworks AD, Bulgaria, the latter acquired 100% of the equity (1,000 ordinary shares of par value 1 Euro) of Beluxen Enterprises Ltd., Cyprus. The purchase price of the investment is 900 thousand Euros (1,760 thousand BGN).

The acquired company holds 100% of the equity of Hellenic Recycling Papayoanou EPE, Greece, which on its part holds 74.27% of the equity of "Srpska Fabrika za Reciklazhu - company for glass recycling and waste processing" AD, Serbia.

Srpska Fabrika is a joint stock company registered in Serbia in 2006. Its main business is glass recycling and waste processing.

Drujba Glassworks AD acquired the company in order to secure its own supplier of crumbles, which are the main raw materials for glass manufacturing.

The Company is of the opinion that there are no indicators about impairment of the investment in Ambalazh Sofia Grad EOOD and Beluxen Enterprises Limited as of 31 December 2010.

Since the shares/stock of subsidiaries are not quoted on the stock market, their fair value cannot be reliably determined as of 31 December 2010.

## 9 Available-for-sale investments

| Company | Country of establishment | 2010 | 2009 |
|---|---|---|---|
| | | *'000 BGN* | *'000 BGN* |
| Balanced Fund-UBB - Sofia | Bulgaria | 13 | 13 |
| Ekobulpak AD | Bulgaria | 1 | 1 |
| | | **14** | **14** |

The Company does not own major and controlling share in its available for sale investments. The shares in Ekobulpak AD owned are not quoted on the Bulgarian Stock Exchange. Their fair value cannot be reliably determined and they are measured at cost. The shares of the Balanced Fund UBB - Sofia are publicly offered at the Stock Exchange and therefore presented at fair value.

The Company's management has not taken a decision regarding the sale of assets during the coming 12 months after the balance sheet date. Hence, they are disclosed as non-current assets.

## 10 Inventories

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |

| | | |
|---|---|---|
| Goods | 554 | 335 |
| Finished products and work in progress | 24,997 | 25,089 |
| Basic materials | 19,400 | 18,845 |
| Spare parts | 11,078 | 9,370 |
| **Total inventories based on cost price** | **56,029** | **53,639** |
| Less: accumulated impairment | (482) | (1,601) |
| **Total inventory at lower of cost and net realizable value** | **55,547** | **52,038** |

As at 31 December 2010 there are pledges on finished products established, amounting to 11,752 thousand BGN (31 December 2009: 19,081 thousand BGN), as security for bank loans obtained (Note 15).

The Company has accounted for accumulated impairment amounting to 482 thousand BGN as at 31 December 2010 (31 December 2009: 1,601 thousand BGN) for obsolete and idle inventory. The Company's management is of the opinion that the carrying amount of the impaired inventory is the best assessment about their net realizable value as at the balance sheet date.

The accumulated impairment of obsolete and idle inventory has changed as follows:

| | **Impairment of obsolete and idle inventory** |
|---|---|
| | *'000 BGN* |
| **On 1 January 2009** | **(1,123)** |
| Recognized (Note 3.5) | (1,232) |
| Recovered | - |
| Written-off | 754 |
| **On 31 December 2009** | **(1,601)** |
| | |
| **On 1 January 2010** | **(1,601)** |
| Recognized (Note 3.5) | (177) |
| Recovered | - |
| Written-off | 1,296 |
| **On 31 December 2010** | **(482)** |

The recovered and written-off inventory impairment is presented as a decrease of cost of sales in the Income Statement. It results from realization/ waste of the relevant inventory during the year.

## 11 Trade receivables

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Trade receivables | 44,988 | 40,232 |
| Less: Accumulated impairment for doubtful receivables | (1,998) | (1,380) |
| | **42,990** | **38,852** |

Trade receivables are not interest-bearing and usually have payment deadline between 30 and 90 days.

As at 31 December 2010 the trade receivables of par value 2,006 thousand BGN (2009: 1,380 thousand BGN) have been impaired, as a result of assessment by the Company's management regarding their collectability.

The accumulated impairment of doubtful trade receivables has changed as follows:

| | Impairment of doubtful receivables |
|---|---|
| | *'000 BGN* |
| **At 1 January 2009** | **(1,101)** |
| Recognized (Note 3.5) | (760) |
| Recovered (Note 3.5) | 481 |
| **At 31 December 2009** | **(1,380)** |
| | |
| **At 1 January 2010** | **(1,380)** |
| Recognized (Note 3.5) | (681) |
| Recovered (Note 3.5) | 63 |
| **On 31 December 2010** | **(1,998)** |

As at 31 December the ageing of trade receivables according to their carrying amounts is presented in the table below:

| | | | Overdue | | | |
|---|---|---|---|---|---|---|
| | **Total** | **Not overdue** | **30-60 days** | **60-90 days** | **90-120 days** | **>120 days** |
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| **2010** | 42,990 | 35,716 | 3,140 | 2,463 | 379 | 1,292 |
| **2009** | 38,852 | 31,625 | 2,369 | 1,865 | 2,349 | 644 |

As at 31 December 2010 there are pledges on receivables established, amounting to 38,226 thousand BGN (2009: 34,562 thousand BGN), as security for bank loans used (Note 15).

## 12 Other receivables

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Court-awarded receivables | 483 | 472 |
| Less: Accumulated impairment of doubtful pending lawsuit receivables | (10) | (68) |
| Pending lawsuit receivables, net | 473 | 404 |
| Sundry debtors and advances | 35 | 48 |
| VAT refundable | 1,257 | 625 |
| Prepaid expenses | 532 | 1,064 |
| Deposit at the customs | 762 | 47 |
| Other | 11 | 19 |
| | **3,070** | **2,207** |

The other receivables are not interest-bearing.

The accumulated impairment of doubtful and uncollectable pending lawsuit receivables has changed as follows:

| | Impairment of doubtful and uncollectable pending lawsuit receivables and advances |
|---|---|
| | '000 BGN |
| **On 1 January 2009** | **(6)** |
| Recognized (Note 3.5) | (68) |
| Recovered (Note 3.5) | - |
| Written-off | 6 |
| **On 31 December 2009** | **(68)** |
| **On 1 January 2010** | **(68)** |
| Recognized (Note 3.5) | - |
| Recovered (Note 3.5) | - |
| Written-off | 58 |
| **On 31 December 2010** | **(10)** |

## 13 Cash and short-term deposits

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Cash in bank accounts | 1,261 | 580 |
| Cash in hand | 16 | 17 |
| | **1,277** | **597** |

13. Cash and short-term deposits (continued)

The cash in bank accounts accrue interest at floating interest rates, based on the daily interest rates for bank deposits. As at 31 December 2010 the fair value of cash and short-term deposits is 1,277 thousand BGN (2009: 597 thousand BGN).

Cash and short-term deposits at the year end has the following currency structure:

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Cash in Euro | 352 | 148 |
| Cash in BGN | 925 | 449 |
| | **1,277** | **597** |

## 14 Issued capital and reserves

### 14.1 Issued capital

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| 53,516 thousand common shares of par value 1 BGN each (2010: 53,516 thousand) | 53,516 | 53,516 |
| | **53,516** | **53,516** |

As at 31 December 2010 and 31 December 2009 all common shares were fully paid.

Issued and paid common shares

| | Number of common shares | Registered and issued capital |
|---|---|---|
| | | '000 BGN |
| At 1 January 2010 | 53,516,496 | 53,516 |
| **At 31 December 2010** | **53,516,496** | **53,516** |
| Barek Overseas | 28,150,280 | 28,150 |
| Glassinvest -Limited | 25,106,232 | 25,106 |
| Other individuals | 204,715 | 205 |
| Other legal entities | 55,269 | 55 |
| | **53,516,496** | **53,516** |

### 14.2 Reserves

| | 2010 | 2009 |
|---|---|---|
| | '000 BGN | '000 BGN |
| Legal reserves | 1,329 | 1,329 |
| Share premium | 12,298 | 12,298 |
| Revaluation reserve | 12,937 | 12,968 |
| Other reserves | 2 | 2 |

14. Issued capital and reserves (continued)

14.2 Reserves (continued)

*The Legal reserves* are formed by shareholding companies as Drujba Glassworks AD as an allocation of profit pursuant to Art. 246 of the Law on Commerce. They are allocated only if they reach one-tenth or a larger portion of the capital. The sources for allocation of legal reserves are at least one-tenth of the net profit, share premium and funds stipulated in the Articles of Association or upon a decision of the General Meeting of Shareholders. The legal reserves can only be used to cover losses from the current or prior reporting periods.

The share premium reserves are formed by:

- share issue and are a result of the difference between the issuing and par value of the newly issued shares (agio), according to a decision of the General Meeting of Shareholders dated 17 December 1999, amounting to 2,747 thousand BGN.
- the difference between the amount registered as issued shareholding capital and the amount registered as acquired (exchanged) shareholding capital amounting to 56,355 thousand BGN in 2003, reduced with capitalized reserves amounting to 46,827 thousand BGN in 2008.
- the difference between the par value and the selling price of repurchased own shares amounting to 95 thousand BGN, of which is deducted the share premium reserve amounting to 72 thousand BGN from the repurchased own shares.

*The revaluation reserve* is formed by revaluation of land of the Company and presented net of deferred taxes.

*The other reserves* are formed by revaluation of available for sale investments and are presented net of deferred taxes.

## 15 Interest-bearing loans

### Short-term borrowings

| Short-term borrowings | Nominal interest rate % | Maturity | 2010 | 2009 |
|---|---|---|---|---|
| | | | *'000 BGN* | *'000 BGN* |
| Loan with total amount of 7,500,000 Euro | BIR + margin | 30.09.2011 | 10,954 | 5,206 |
| Loan with total amount of 6,000,000 Euro | EURIBOR + margin | 04.04.2011 | 11,524 | 11,704 |
| Loan with total amount of 6,500,000 BGN | SOFIBOR + margin | 30.04.2011 | 6,510 | 6,481 |
| Loan with total amount of 14,000,000 BGN | SOFIBOR + margin | 30.09.2011 | 12,896 | 13,044 |
| Loan with total amount of 3,000,000 Euro | EURIBOR + margin | 31.07.2011 | 5,836 | 5,833 |
| Loan with total amount of 4,000,000 Euro | EURIBOR/SOFIBOR + margin | 28.02.2011 | 7,839 | 7,843 |
| Loan with total amount of 4,000,000 Euro | EURIBOR + margin | 18.11.2010 | 7,821 | 7,000 |
| | | | **63,380** | **57,111** |

All short-term loans have floating interest rates. The interest rate in average for short-term loans is 4.28% for 2010 (2009: 4.55%).

As at 31 December 2010 the used bank loans are secured with pledges of receivables and finished products, amounting to 49,981 thousand BGN (2009: 53,643 thousand BGN), non-current assets with carrying amount 1,210 thousand BGN (2009: 2,295 thousand BGN) and a bank guarantee amounting to 650 thousand BGN.

### Unutilized loans

As at 31 December 2010 the Company has at its disposal unutilized short-term loans amounting to 5,117 thousand BGN (2009: 10,476 thousand BGN).

15. Interest-bearing loans (continued)

## Long-term loans

| Long-term loans | Nominal interest rate % | Maturity | 2010 | 2009 |
|---|---|---|---|---|
| | | | '000 BGN | '000 BGN |
| (1)Loan with total amount of 20,000,000 Euro | EURIBOR + margin | 15.09.2010 | - | - |
| (2) Loan with total amount of 8,600,000 Euro | EURIBOR + margin | 15.09.2015 | 11,080 | 13,854 |
| (3) Loan with total amount of 2,000,000 Euro | EURIBOR + margin | 15.03.2011 | - | 949 |
| | | | **11,080** | **14,803** |

| Current portion of long-term debts | Nominal interest rate % | Maturity | 2010 | 2009 |
|---|---|---|---|---|
| | | | '000 BGN | '000 BGN |
| (1)Loan with total amount of 20,000,000 Euro | EURIBOR + margin | 15.09.2010 | - | 7,875 |
| (2) Loan with total amount of 8,600,000 Euro | EURIBOR + margin | 15.09.2015 | 2,924 | 2,944 |
| (3) Loan with total amount of 2,000,000 Euro | EURIBOR + margin | 15.03.2011 | 985 | 1,977 |
| | | | **3,909** | **12,796** |

The long-term loans have floating interest rates. The average effective interest rate for long-term loans is 2.68 % (2009: 4.15%).

The existing long-term loans as at 31 December 2010 are for investments and are secured with pledges and mortgages of lands, buildings, plant and equipment with carrying amount as at 31 December 2010 of 44,249 thousand BGN (2009: 53,517 thousand BGN)

*(1) Agreed amount*: **20,000 thousand Euros (39,117 thousand BGN)** – purpose of the loan - investment

The repayment of the loan shall be made in ten instalments of 2,000 thousand Euros (3,912 thousand BGN) payable twice a year - on 15 March and 15 September for the period from 15 March 2006 to 15 September 2010.

As at 31 December 2010 the loan has been fully repaid.

15. Interest-bearing loans (continued)

### Long-term loans (continued)

*(2) Agreed amount*: **8,600 thousand Euros (16,820 thousand BGN)** – purpose of the loan - investment

The repayment of the loan shall be made in twelve instalments of 717 thousand Euros (1,402 thousand BGN) payable twice a year - on 15 March and 15 September for the period from 15 March 2010 to 15 September 2015.

*(3) Agreed amount*: **2,000 thousand Euros (3,912 thousand BGN)** – purpose of the loan - investment

The repayment of the loan shall be made in four instalments of 500 thousand Euro (978 thousand BGN) payable twice a year - on 15 March and on 15 September for the period from 15 September 2009 to 15 March 2011. In March 2011 the last loan instalment was paid.

The long-term loans become immediately payable if any of the contract terms is breached. Some of the most important terms are: liquidity ratios, indebtedness ratios and limits, set annual investment levels, implementation of state-of-the-art quality systems. The Company was in compliance with all these conditions as at the balance sheet date.

## 16 Retirement benefit liability

According to the Bulgarian legislation and the Collective Labour Agreement, the Company is obliged to pay to its employees upon retirement from two to seven gross monthly salaries, depending on the years of service in the company. The retirement benefit plan is not financed.

The components of expenses for retirement benefits recognized in the Income Statement and the liabilities recognized in the Balance Sheet as at 31 December 2010 and 2009 are summarized below:

### Expenses for retirement benefit liability

| | **2010** | **2009** |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Interest expense | (42) | (48) |
| Net actuarial loss, recognized during the year | (10) | (6) |
| Costs for current length of service | (48) | (87) |
| **Expenses on retirement benefit provisions, recognized in the Income Statement (Note 3.6)** | **(100)** | **(141)** |

### Retirement benefit liability

| | **2010** | **2009** |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Present value of the liability for retirement benefit provision | 741 | 632 |
| Unrecognized actuarial loss | (266) | (194) |
| **Liabilities for retirement benefit provision, recognized in the Balance Sheet** | **475** | **438** |

## 16. Retirement benefit liability (continued)

### Retirement benefit liabilities (continued)

The changes of the present value of the liability for retirement benefit provision are as follows:

| | **Amount** |
|---|---|
| | *'000 BGN* |
| **Liabilities for retirement benefit provision on 1 January 2009** | **803** |
| Interest expense | 48 |
| Costs for current length of service | 87 |
| Benefits paid to the staff | (301) |
| Actuarial losses | (5) |
| **Liabilities for retirement benefit provision on 31 December 2009** | **632** |
| Interest expense | 42 |
| Costs for current length of service | 48 |
| Benefits paid to the staff | (63) |
| Actuarial losses | 82 |
| **Liabilities for retirement benefit provision on 31 December 2010** | **741** |

The liability for retirement benefit provision is determined through an actuarial assessment using the projected unit credit method.

The following actuarial assumptions have been made while determining the present value of the liability for retirement benefit provision:

- Demographic, related to the future characteristics of the present and future staff, meeting the requirements for receipt of benefits. These assumptions include expected turnover rate of employees, disability and early retirement, mortality.
- Future increase of remunerations in periods.
- Staff turnover by age groups.
- The discount rate for 2010 is 6.5% (2009: 7%)

The amounts of below items for the current and the prior four periods are as follows:

| | **2010** | **2009** | **2008** | **2007** | **2006** |
|---|---|---|---|---|---|
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| Retirement benefit liability | 475 | 438 | 525 | 479 | 407 |
| Actuarial gains and losses | 10 | 6 | 4 | 8 | - |

## 17 Finance lease liability

The Company is a lessee under contracts for financial lease of vehicles. The minimum lease payments are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Future minimum lease instalments** | **Present value of minimum lease instalments** | **Future minimum lease instalments** | **Present value of minimum lease instalments** |
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| Within one year | 24 | 24 | 110 | 110 |
| Between one and five years | 38 | 38 | 64 | 55 |
| Total minimum lease instalments | 62 | 62 | 174 | 165 |
| Unrealized financial expense | - | - | (9) | - |
| **Present value of minimum lease instalments** | **62** | **62** | **165** | **165** |

The financial lease assets of the Company are cars, lorries and a machine for washing of plastic panels. The terms of lease contracts are:

- Cars by 2009;
- Lorries by 21 June 2010;
- panels washing machine by 4 July 2011;

## 18 Other payables

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Liabilities for salaries and income taxes of staff | 1,274 | 1,341 |
| Payables to social insurance institutions | 791 | 902 |
| Advances to customers | 340 | 920 |
| Liabilities to social security companies | 346 | 349 |
| Withholding taxes | 50 | 212 |
| Other liabilities and provisions | 1,481 | 527 |
| | **4,282** | **4,251** |

## 19 Related party disclosure

End parent company

Drujba Glassworks AD belongs to Yioula Glassworks Group, Greece. The ultimate parent company is Yioula Glassworks S.A. Greece.

Entities having a controlling or majority stake in the Company

In total 99.5% of the equity of Drujba Glassworks AD is owned by subsidiaries of Yioula Glassworks AD. Barek Overseas, Cyprus holds 52.6% of the Company's equity and Glassinvest, Cyprus - 46.9%.

**Subsidiaries**

Drujba Glassworks AD holds 100% of the equity of Ambalazh - Sofia Grad EOOD and 100% of the equity of Beluxen Enterprises Ltd. - Cyprus. Additional information is presented in Note 8.

**Other related parties (under common control)**

Stirom – Romania, New Glass – Shumen, Yioula Glassworks – Cyprus, Bucha – Ukraine, Biomedsklo – Ukraine and Drujba Glassworks AD are related parties, since they are under the common control of Yioula Glassworks, Greece.

| **Related party** | **Nature of the deal** | **2010** | | **2009** | |
|---|---|---|---|---|---|
| | | **Sales** | **Purchases** | **Sales** | **Purchases** |
| | | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| Umbrella parent company | Machinery and equipment | - | 1,887 | - | 96 |
| Umbrella parent company | Materials | - | 1,382 | - | 1,232 |
| Umbrella parent company | Goods | - | 1,426 | - | 326 |
| Umbrella parent company | Services | - | 1,750 | - | 1,127 |
| Umbrella parent company | Products | 13,006 | - | 16,093 | - |
| Umbrella parent company | Machinery and equipment | - | - | 24 | - |
| Umbrella parent company | Transport services | 1,723 | - | 2,052 | - |
| Umbrella parent company | Materials | 2,117 | - | 1,676 | - |
| Other related parties (under common control) | Goods | - | 4,290 | - | 475 |
| Other related parties (under common control) | Services | 262 | 1 | 643 | 1 |
| Other related parties (under common control) | Machinery and equipment | 1,879 | 2,291 | 68 | 668 |
| Other related parties (under common control) | Materials | 596 | 164 | 207 | 18 |
| Other related parties (under common control) | Products | 2,624 | - | 4,922 | - |
| Subsidiaries | Interest on long-term receivable | 81 | - | 60 | - |
| Subsidiaries | Materials | - | 2,082 | | |

## 19. Related Party Disclosures (continued)

### Other related parties (continued)

The settlement accounts with related parties comprise:

### Long-term receivables

| Related party | Nature of long-term receivables | 2010 | 2009 |
|---|---|---|---|
| | | *'000 BGN* | *'000 BGN* |
| Subsidiaries | Sale of non-current assets improvements | 339 | 892 |
| | | **339** | **892** |

A long-term receivable from Ambalazh - Sofia Grad EOOD is not secured and is settled only by setting-off trade payables of the Company to Ambalazh - Sofia Grad EOOD. It is presented at amortized cost at effective interest rate of 7.85%. The long-term receivable will be repaid by 31 October 2017.

### Short-term receivables

| Related party | Nature of short-term receivables | 2010 | 2009 |
|---|---|---|---|
| | | *'000 BGN* | *'000 BGN* |
| Umbrella parent company | Products | 60,779 | 50,495 |
| Umbrella parent company | Goods | 495 | 495 |
| Umbrella parent company | Services | 8,261 | 6,972 |
| Umbrella parent company | Materials | 7,510 | 5,718 |
| Umbrella parent company | Machinery and | 132 | 155 |
| Other related parties (under common control) | Products | 715 | 1,432 |
| Other related parties (under common control) | Materials | 875 | 425 |
| Other related parties (under common control) | Machinery and equipment | 2,893 | 1,120 |
| Other related parties (under common control) | Services | 730 | 748 |
| Subsidiaries | Sale of non-current assets improvements | 186 | 186 |
| | | **82,576** | **67,746** |

## 19. Related Party Disclosures (continued)

### Short-term liabilities

| Related party | Nature of short-term debt | 2010 | 2009 |
|---|---|---|---|
| | | *'000 BGN* | *'000 BGN* |
| Umbrella parent company | Services | 1,751 | 1,889 |
| Umbrella parent company | Machinery and equipment | 2,200 | 61 |
| Umbrella parent company | Materials | 938 | 1,114 |
| Umbrella parent company | Goods | 1,434 | 326 |
| Entity with majority stake in the Company | Dividend | 47,688 | 14,925 |
| Subsidiary | Materials | 663 | 117 |
| Other related parties (under common | Materials | 137 | 3 |
| Other related parties (under common | Goods | 2,343 | 427 |
| Other related parties (under common control) | Machinery and equipment | 2,041 | 3 |
| | | **59,195** | **18,865** |

### Terms of the related party transactions

Sales to and purchases from related parties are carried out according to the agreed terms and conditions. The outstanding balances in the year end are not secured, not interest-bearing and their settlement is done in cash or trough set-off. No guarantees have been obtained for related party receivables. The Company has not performed an impairment of related party receivables as at 31 December 2010 (2009: nil), since the expectations are that they will be fully collected.

### Guarantees undertaken

Drujba Glassworks AD, together with the other subsidiaries of the Yioula Group assumed a guarantee on long-term bond loan of Yioula Glassworks S.A., Greece. Under the terms of the guarantee, Drujba Glassworks AD is one of the Companies of the Yioula Group, guaranteeing the performance of the obligations of Yioula Glassworks S.A., Greece, arising from a bond loan for an initial total amount of 140,000 thousand Euros (273,816 thousand BGN), with subsequent issues adding up to a total amount of 200,000 thousand Euros (391,166 thousand BGN) at 9% annual interest for a period of 10 years (until 31 December 2015).

### Key management remuneration

For 2010 the remunerations of the Board of Directors, Executive Directors and Procurators of Drujba Glassworks AD amounted to 301 thousand BGN (2009: 450 thousand BGN). These amounts represent short-term income of management.

## 20 Distributed dividends

According to a decision of the General Meeting of Shareholders, the dividends distributed in 2010 amounted to 35,835 thousand BGN (2009: 16,590 thousand BGN). The dividend per share is 0.67 BGN (2009: 0.31 BGN per share).

## 21 Irrevocable commitments and contingent liabilities

### Assumed guarantees

Drujba Glassworks AD, together with the other subsidiaries of the Yioula Group assumed a guarantee on long-term bond loan of Yioula Glassworks S.A., Greece (Note 19).

### Operating lease commitments - the Company as Lessee

The Company has concluded an operating lease agreement for motor vehicles, with average term of 3 years, without renewal option, and rental agreements for warehouse areas for a term of 5 years. There are no restrictions imposed on the lessee, related to the lease agreements.

As of 31 December, the future minimum lease instalments under irrevocable operating lease agreements are as follows:

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Within one year | 442 | 740 |
| One through five years | 3,451 | - |
| Over five years | - | - |
| | **3,893** | **740** |

### Other

Drujba Glassworks AD has been object of the following tax audits:

- a complete tax audit of Drujba Glassworks AD covering the period until 31 December 2006 inclusive was performed.
- VAT audits of Drujba Glassworks AD covering the period until August 2007 inclusive were performed.
- audits by the Regional Social Security Department were performed of Drujba Glassworks AD, covering the period until 31 December 2006 inclusive.

The management of the Company finds that there are no significant risks resulting from the dynamic fiscal and regulatory environment in Bulgaria, which could necessitate any adjustments to the financial statements for the year ending 31 December 2010.

## 22 Financial risk objectives and policies

The main financial liabilities of the Company include interest-bearing loans and borrowings and trade payables. The main objective of these financial instruments is to procure financing for the Company's operations. The Company owns financial assets, e.g. trade receivables and cash and short-term deposits, incurred directly from operations.

Both in 2010 and 2009 the Company has not held or traded with derivative financial instruments.

The main risks arising from the financial instruments of the Company are the interest risk, the liquidity risk, the currency risk and the credit risk. The Company's policy applied to manage those risks is summarized below.

## 22. Financial risk objectives and policies (continued)

### Interest risk

The interest rate risk arises from fluctuations in the price of financial instruments with view to changes in the interest levels. The Company is exposed to risk of changes in market interest rates, mainly with regard to the short-term and long-term financial liabilities with variable (floating) interest rate. The Company uses long-term and short-term loans to finance its operations. The interest on these loans are usually with fixed spread and variable interest rate based on EURIBOR and SOFIBOR respectively for Euro and BGN loans, which poses an interest risk on the cash flows. To regulate this risk, the management of the Company constantly improves its relations with the servicing banks, which, which together with the good financial results and prompt repayment of all liabilities to banks, allows the negotiation of better interest rates.

The Company has no interest-bearing assets except cash in banks and therefore its revenue and operating cash flows are independent of changes in market interest rate levels.

The table below shows an analysis of sensitivity towards the potential changes of interest rates and their effect on the profit before tax (through the effect on loans and borrowings with floating interest rates), if all other variables are assumed to be constant. There is no effect on the other equity elements of the Company.

| | **Increase/ decrease in the interest rates** | **Effect on profit before tax** |
|---|---|---|
| | | *'000 BGN* |
| **2010** | | |
| Loans and borrowings in Euro | -0.5% | 295 |
| Loans and borrowings in Euro | +0.5% | (295) |
| Loans and borrowings in BGN | -0.5% | 97 |
| Loans and borrowings in BGN | +0.5% | (97) |
| **2009** | | |
| Loans and borrowings in Euro | -0.5% | 380 |
| Loans and borrowings in Euro | +0.5% | (380) |
| Loans and borrowings in BGN | -0.5% | 77 |
| Loans and borrowings in BGN | +0.5% | (77) |

## 22. Financial risk objectives and policies (continued)

### Liquidity risk

The liquidity risk is expressed by a negative situation where the Company is not in a position to meet unconditionally all its liabilities, as they mature.

The operations require availability of sufficient stocks to ensure the flawless production process. The marketing of finished products is seasonal. The product and market situation require the provision of deferred payment to the main customers. The Company uses short-term credit borrowings to ensure the stability of its cash flows in low seasons. Long-term borrowings are used to finance investment projects of the Company.

The maturity and the timely payments are monitored by the Cash flow department regularly, maintaining daily information on the cash in hand and payments falling due. The maturity of receivables and the timely payment by customers are monitored by the Commercial department in conjunction with the Cash flow department. The following measures are taken to manage the liquidity risk:

a\ Strict monitoring of the implemented Credit policy for receivables, where the customer assessment during the negotiations of the trade terms depends also on the proper fulfilment of the financial commitments. The monitoring process for the fulfilment of trade terms by the customers is automated into the integrated information system.

b\ improved relations with suppliers and extended payment terms.

As at 31 December the maturity structure of Company's financial liabilities, based on the agreed undiscounted payments, is presented below:

**As at 31 December 2010**

| | At sight | < 3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| Interest-bearing loans | - | 10,472 | 19,989 | 39,264 | 11,950 | - | 81,675 |
| Finance lease liability | - | 8 | 8 | 8 | 38 | - | 62 |
| Trade payables | - | 44,781 | - | - | - | - | 44,781 |
| Liabilities to related parties | - | 59,195 | - | - | - | - | 59,195 |
| | **-** | **114,456** | **19,997** | **39,272** | **11,988** | **-** | **185,713** |

**As at 31 December 2009**

| | At sight | < 3 months | 3-6 months | 6-12 months | 1-5 years | > 5 years | Total |
|---|---|---|---|---|---|---|---|
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| Interest-bearing loans | - | 12,353 | 18,199 | 39,369 | 14,995 | - | 84,916 |
| Finance lease liability | - | 27 | 27 | 56 | 55 | - | 165 |
| Trade payables | - | 38,615 | - | - | - | - | 38,615 |
| Liabilities to related parties | - | 18,865 | - | - | - | - | 18,865 |
| | **-** | **69,860** | **18,226** | **39,425** | **15,050** | **-** | **142,561** |

## 22. Financial risk objectives and policies (continued)

### Foreign currency risk

The Company performs its operations in active exchange with foreign suppliers and customers. The major part of the Company's transactions is denominated in Bulgarian lev and Euro. Since the exchange rate BGN/EUR is fixed to 1.95583, the foreign currency risk arising from Euro exposures of the Company is minor. The Company maintains a minimum foreign currency exposure in foreign currency different from the national currency and the Euro. Therefore it is exposed to a medium foreign currency risk, mainly towards the British pound and the USD, insomuch as a major part of the supplies is negotiated in the above mentioned currencies and therefore there delivery price and respectively the price of the end product is being influenced by the exchange rate of the USD and British pound to the lev.

Some of these supplies are lengthy and usually 4 to 12 weeks pass between the negotiation date and the actual delivery date. Part of the export of finished products is also done in British pounds, which influences the foreign currency risk of the Company.

To control the foreign currency risk, the Company negotiates most of the deals with its international counterparts in Euro. In the case of transactions in currency other than Euro, they are negotiated at terms binding the payments and the delivery.

The table below shows an analysis of sensitivity towards the potential changes of the exchange rate BGN/British pound and their effect on the profit before tax (through the effect on the carrying amounts of monetary assets and liabilities), if all other variables are assumed to be constant. There is no effect on the other equity elements of the Company.

| | **Increase/Decrease of the exchange rate BGN/British pound** | **Effect on profit before tax** |
|---|---|---|
| | *BGN/British pound* | *'000 BGN* |
| 2010 | + 0.156 | 492 |
| | - 0.156 | (492) |
| 2009 | + 0.156 | 496 |
| | - 0.156 | (496) |

### Credit Risk

The Company trades only with recognized, solvent counterparts. Its policy is that all customers wishing to trade under the terms of deferred payment are subject to solvency inspection procedures. Moreover, the balances of trade receivables are being monitored regularly, wherefore the Company's exposure to doubtful and uncollectable receivables is not significant. The credit risk arising from the other financial assets of the Company, e.g. cash and other financial assets, represents the credit exposure of the Company, arising from the probability that its counterparts will fail to fulfil their obligations.

The Company's maximum credit exposure related to the recognized financial assets amounts to their relevant values in the Balance Sheet as at 31 December 2010.

## 22. Financial risk objectives and policies (continued)

### Equity management

The main objective of the Company's equity management is to ensure a stable credit rating and equity ratios, with view to the continuation of its business and maximizing its value to its shareholders.

The Company manages its equity structure and adjusts it, if necessary, depending on the changes in the economic environment. With view to maintaining or changing its equity structure, the Company may adjust dividend payments to shareholders, buyback its own shares, reduce or raise the share capital, based on a decision of shareholders. There have been no changes of objectives, policies or processes with regard to the Company's equity management in 2010 and 2009.

The Company monitors its equity through the financial result achieved in the current period, as follows:

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Net profit | **10,780** | **11,849** |

The Company is supposed to observe externally imposed equity requirements, according to long-term bank loan agreements. These requirements concern the compliance with certain financial indicators, as specified in Note 15, including non-current assets to equity ratio and total liabilities to equity ratio. Drujba Glassworks AD has complied with these requirements as at the balance sheet date.

| | 2010 | 2009 |
|---|---|---|
| | *'000 BGN* | *'000 BGN* |
| Current liabilities | 178,735 | 132,430 |
| Non-current liabilities | 20,097 | 25,251 |
| Total liabilities | **198,832** | **157,681** |
| | | |
| Issued capital | 53,516 | 53,516 |
| Share premium | 12,298 | 12,298 |
| Legal reserves | 1,329 | 1,329 |
| Other reserves | 2 | 2 |
| Revaluation and other reserves | 12,937 | 12,968 |
| Retained earnings | 76,910 | 101,934 |
| **Equity** | **156,992** | **182,047** |
| | | |
| Long-term liabilities to Shareholders' equity | **0.13** | **0.14** |
| Total liabilities to Shareholders' equity | **1.27** | **0.87** |

## 23. Fair value of financial instruments

The fair value is the amount at which a financial instrument may be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, which is the best indicator of its market value in an active market.

The Company determines the fair value of financial instruments based on the available market information, or if such is not available, through appropriate valuation models. The fair value of financial instruments traded actively at organized financial markets, is determined based on the "buy" prices on the last business day of the reporting period. The fair value of financial instruments for which no active market exists, is determined through appropriate valuation methods. These models include the use of recent market transactions between knowledgeable, honest and willing parties, using the current fair value of another instrument with similar characteristics; analysis of discounted cash flows or other valuation techniques.

Comparison of the carrying amounts and fair values of all financial instruments of the Company (at balance sheet item level), as disclosed in the Financial Statements, is presented below:

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | *'000 BGN* | *'000 BGN* | *'000 BGN* | *'000 BGN* |
| *Financial assets* | | | | |
| Long-term receivables from subsidiaries | 339 | 892 | 339 | 892 |
| Available-for-sale investments | 14 | 14 | 14 | 14 |
| Trade receivables | 42,990 | 38,852 | 42,990 | 38,852 |
| Receivables from related parties | 82,576 | 67,746 | 82,576 | 67,746 |
| Cash and short-term deposits | 1,277 | 597 | 1,277 | 597 |
| *Financial liabilities* | | | | |
| Interest-bearing loans and borrowings | 78,431 | 84,875 | 78,431 | 84,875 |
| Trade payables | 44,781 | 38,615 | 44,781 | 38,615 |
| Liabilities to related parties | 59,195 | 18,865 | 59,195 | 18,865 |

## 24 Events occurred after the balance sheet date

After the balance sheet date, the Company signed annexes related to its short-term loans, as follows:

- Extending the maturity of a loan of 6,000,000 Euro (11,735 thousand BGN) and balance as of 31.12.2010 amounting to 11,524 thousand BGN until 4 April 2012;
- Extending the maturity of a loan of 6,500,000 Euro and balance as of 31.12.2010 amounting to 6,510 thousand BGN until 30 June 2011;
- Extending the maturity of a loan of 4,000,000 Euro (7,823 thousand BGN) and balance as of 31.12.2010 amounting to 7,839 thousand BGN until 18 November 2011;
- Extending the maturity of a loan of 4,000,000 Euro (7,823 thousand BGN) and balance as of 31.12.2010 amounting to 7,821 thousand BGN until 28 February 2012. More to that the total amount was increased to 5,000,000 Euro (9,779 thousand BGN).;

In the end of February 2011 Drujba finalized the reconstruction of furnace 4 in Plovdiv.

In March 2011 Drujba GW made the last instalment of 985 thousand BGN under the matured long-term loan of total amount 2,000,000 Euro (3,912 thousand BGN), thus repaying it in full.

**ANNEXES**

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*I, the undersigned Zlatka Ivanova Gospodinova hereby certify that this is a true and accurate translation done by me from Bulgarian into English of the attached document – Annual Activity Report and Stand alone Financial Statements of Drujba Glassworks AD as of 31.12.2010. The translated document comprises 70 pages.*

*Translator: Zlatka Ivanova Gospodinova*