



Letter of Approval

Undersigned, as a legal and authorised representative of the Republic of Bulgaria,

Recalling that the Republic of Bulgaria and the Kingdom of Denmark have signed a Memorandum of Understanding between the Government of the Republic of Bulgaria and the Government of the Kingdom of Denmark on co-operation under Article 6 of the Kyoto Protocol to the United Nation Framework Convention on Climate Change;

Recognizing that the Memorandum of Understanding between the Government of the Kingdom of Denmark and the Government of the Republic of Bulgaria was signed in Sofia in 2003 by the respective Governments,

Taking into account that the Government of the Republic of Bulgaria has delegated the power to act as the Party to the Memorandum to the Ministry of Environment and Water of the Republic of Bulgaria and that The Government of the Kingdom of Denmark has delegated the power to act as the Party to the Danish Environmental Protection Agency, the designated authorities as the Parties to the Memorandum, have endorsed the development of the below mentioned project for the purposes of Joint Implementation under Article 6 of the Kyoto Protocol;

Acknowledging that the principle of using all income from the sales of AAUs and ERUs in the project to environmental investments at Agropolychim will be of major environmental benefit for Bulgaria;

Referring to:

proposal number 26-00-2060

dated : 14 July 2004

named Nitrous Oxide Reduction at Agropolychim JSC, Devnya, Bulgaria, hereafter to be referred to as "the JI project", located in the town of Devnia on reduction of N₂O from nitric acid production by Agropolychim JSC; hereafter to be referred to as the 'Supplier', whereas the Supplier is the project owner.

Considering that the Project is expected to provide a reduction in greenhouse gas emissions by sources that is additional to any that would otherwise occur;

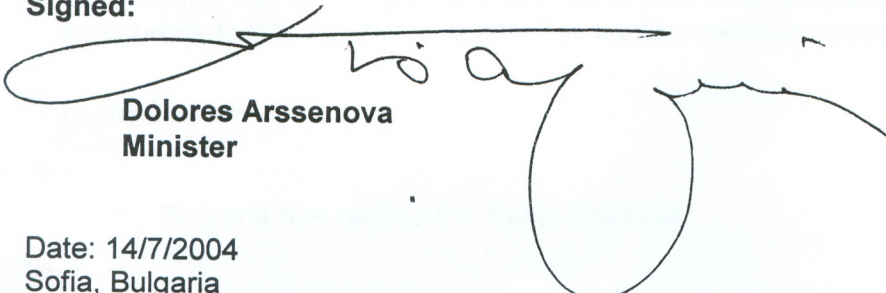
declares that:

1. Bulgaria has ratified the Kyoto Protocol.
2. Bulgaria will comply with the requirements to participate in JI Projects according to Article 6 of the Kyoto Protocol as stated in the Marrakech Declaration no later than 1 September 2006.

3. Bulgaria commits itself to take all steps required under the Kyoto Protocol and/or the relevant rules, decisions, modalities, guidelines and procedures thereunder concerning the governmental parts of transfer of Emission Reductions from the Project
4. Bulgaria recognises the JI Project to be a Joint Implementation project in accordance with article 6 of the Kyoto Protocol and its underlying decisions.
5. Bulgaria authorises the Supplier and any future owner of the JI Project to generate Claims on ERUs, by operation of the JI Project, in accordance with article 6 of the Kyoto Protocol.
6. Bulgaria accepts to transfer all verified ERUs generated through the JI Project and contracted between the Supplier and Denmark, to the Government of Denmark during the period 2008 - 2012.
7. The total number of emission reductions for the period 2004 – 2012 is presently estimated to 3.75 million t CO₂ equivalent.
8. The transfer of ERUs from Bulgaria to Denmark will be free of any taxes or levies.
9. All income from the sales of emission reductions will be used by Agropolychim primarily for the implementation of the present JI Project; secondly for the implementation of environmental projects at Agropolychim in the framework of its Integrated Pollution Prevention and Control (IPPC) Programme obligations and establishing windmills with a total capacity of up to 1.5 MW; and thirdly for other projects reducing carbon dioxide emissions at Agropolychim.
10. The supervision of the spending of the above-mentioned income will be performed by the National Eco-trust Fund or any other common agreed institution.
11. The transfer of ERUs from Bulgaria to Denmark is irrespective of any legal or other transfer of the JI Project to third parties.

12. In case the Kyoto Protocol does not enter into force, Bulgaria shall transfer to Denmark emission reductions on a bilateral basis in an amount equal to the number of verified emission reductions, cf. article 6 and 16 of this Letter of Approval.
13. In case Bulgaria and Denmark fully comply with the participation requirements of the Marrakech accords, the transfer of ERUs will be based on article 23 of these accords ('JI track one').
14. Bulgaria also confirms that it will set aside for the JI Project an amount of AAUs corresponding to 1.45 million t CO₂ equivalent expected to be generated by the project prior to 2008 in accordance with Paragraph 2 of the Memorandum of Understanding between the Republic of Bulgaria and the Kingdom of Denmark.
15. Bulgaria is currently in the process of establishing an AAU management and investment scheme for "greening" of AAUs transferred through the International Emissions Trading mechanism of Article 17 of the Kyoto Protocol.
16. Bulgaria will transfer to Denmark on the 31 March 2008 or as soon as practicable thereafter Assigned Amount Units (AAUs) through the Emissions Trading mechanism of Article 17 of the Kyoto Protocol in an amount equal to the emission reductions realised by the JI Project prior to 2008 and contracted between Denmark and the Supplier. Bulgaria agrees to use the same method of verification as used for the verification of ERUs.
17. The transfer of the amount of 1.45 million AAUs will take place after Bulgaria's Assigned Amounts Registry has been established, provided that the Supplier or Denmark have submitted Verification documents verifying the generation of an equivalent amount of emission reductions.
18. At the latest in 2011 Bulgaria and Denmark will start discussions on eventual transfer of ERUs generated by the JI project after 2012.

Signed:



Dolores Arsenova
Minister

Date: 14/7/2004
Sofia, Bulgaria