

**EURO-FINANCE LTD.**

**FINANCIAL STATEMENTS**

**31.12.2006**

<u>CONTENTS</u>	<u>PAGE</u>
STATEMENT OF THE BOARD OF DIRECTORS FOR THE ACTIVITY IN 2005	2
INCOME STATEMENT	11
BALANCE SHEET	12
CASH FLOW STATEMENT	14
EQUITY STATEMENT	15
NOTES TO THE FINANCIAL STATEMENTS	16
INDEPENDENT AUDITORS' REPORT	32
ADDITIONAL INFORMATION	34

**ANNUAL REPORT OF THE BOARD OF DIRECTORS  
OF EURO-FINANCE LTD.,  
FOR THE YEAR ENDING DECEMBER 31<sup>ST</sup>, 2006**

**KEY INDICATORS**

Indicator	Unit	Year		
		2006	2005	2004
Net fee and commission income	BGN '000	1 180	774	470
Net income from transactions for the Company's own account	BGN '000	388	427	700
Administrative expenses	BGN '000	(858)	(714)	(769)
Net profit	BGN '000	710	423	326
Shareholder's equity	BGN '000	2606	2310	2 212
Share capital	BGN '000	1500	1500	1 400
Return on equity	%	27,2	18,3	14,7
Customer assets under administration	BGN '000	127 892	67 380	31 981

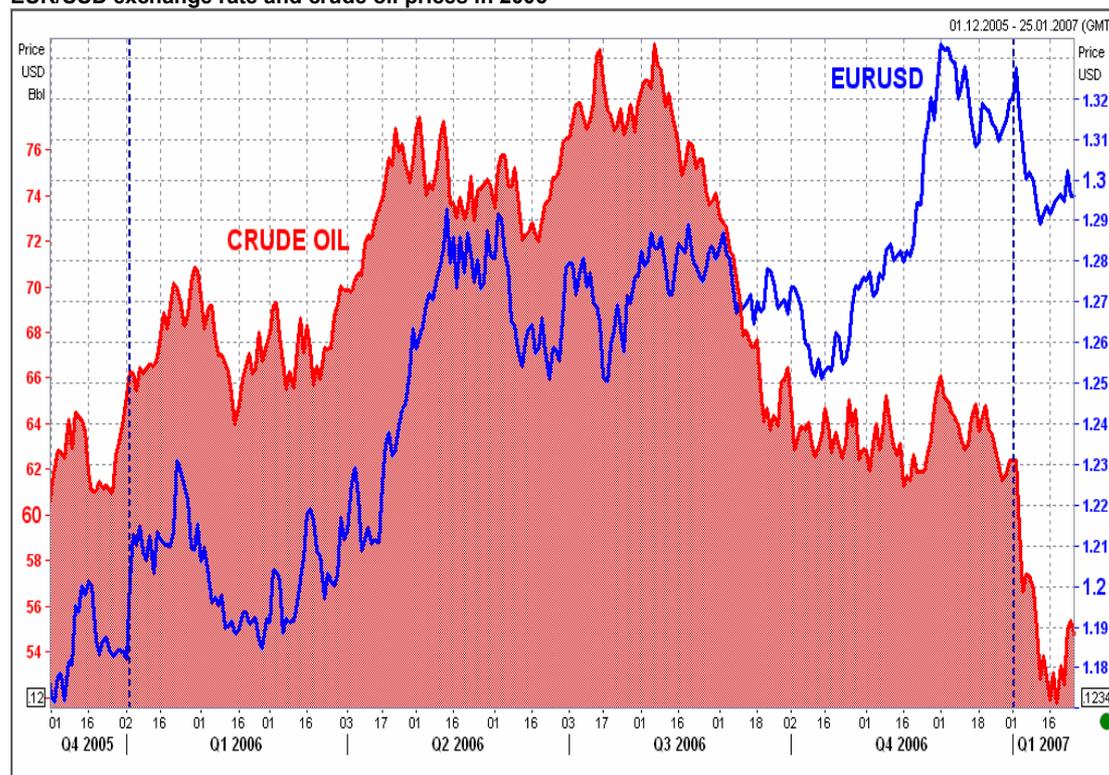
**GLOBAL ECONOMIC ENVIRONMENT**

The world economy continued to grow at a relatively stable pace in 2006 – 5.4% according to estimates from the Economist Intelligence Unit based on purchasing power parity – despite some negative trends that have emerged during the year, such as slowing US economy, sharp surge in global oil prices and high inflation rates. The economies of the Eurozone (2.9% projected GDP growth for 2006), United States (3.3% projected GDP growth for 2006) and Japan (1.9% projected GDP growth for 2006) maintained a balanced growth momentum, which have contributed to steady global economic growth. Meanwhile, the emerging market economies such as China and India continued to expand more rapidly (projected GDP growth for 2006 is 10.6% and 8%, respectively) and largely managed to compensate for the weaker US economic performance.

In 2006 the central banks of the leading world economies continued to fight inflation through monetary restraint. During the year, the Federal Reserve raised the benchmark US interest rate by 100 basis points from 4.25% to 5.25% (in August the Fed ended its monetary tightening cycle). In 2006 the European central bank (ECB) lifted the benchmark refinancing rate in the Eurozone by 125 basis points from 2.25% in the beginning of the year to 3.5% at the end. The fear that some analysts had expressed earlier, that the current cycle of interest rate hikes by the ECB would stifle the recovery of the Euro area economy, has not been justified. On the contrary, the Eurozone economy grew at its fastest pace in five years, chiefly due to sustained increase in consumer demand.

The narrowing interest rate differential between the EU and US have benefited the single currency, which rose 11.53% against the US dollar in the period between January 1 and December 29, 2006. The US interest rate advantage over the Eurozone is likely to dwindle in 2007, as market participants forecast a 50 basis points cut in US rates by the end of the next year. On the other hand, the benchmark refinancing rate in the Euro area is expected to reach 3.75-4.00% by the end of 2007.

**EUR/USD exchange rate and crude oil prices in 2006**



SOURCE: REUTERS

According to consensus estimates global economic growth prospects for 2007 remain bright – although the world economy is expected to slow slightly, the global growth will remain relatively benign and more geographically balanced. Domestic consumption boom in China and India will compensate for the less impressive performance of developed economies such as United States, Japan and Germany. The market projects “soft landing” for the US economy. Despite rising interest rates, appreciating Euro and higher VAT in Germany, the growth in the Euro area may exceed 2%. This will be the case if crude oil prices stay at their current levels throughout 2007 and the potential to increase employment is realized, translating into higher consumption expenditure.

## DOMESTIC ECONOMIC CONDITIONS

As of January 1, 2007 Bulgaria became a full member of the European Union (EU). The successful conclusion of accession negotiations with EU in 2006 and the harmonized legislation, as well as the sustained political and financial stability contributed to an improvement in the investment appeal of our country.

The inner power to change and the consistent pressure on behalf of EU give grounds for optimism that the reforms in certain key areas such as judicial system, administration, healthcare and education will be successfully accomplished. The competitiveness of the Bulgarian economy, as well as its ability to sustain robust economic growth in the long run, will largely depend on the above.

### *Macroeconomic indicators*

Indicator	Unit	Year		
		2006	2005	2004
Real GDP growth	%	6,3*	5,5	5,7
Inflation	%	6,5	6,5	4,0
Unemployment	%	9,1	10,7	12,2
Current account	% of GDP	-11,0**	-11,3	-5,8
Foreign direct investment	% of GDP	13,2**	10,8	13,9
Gross domestic product, incl.:	% of GDP	76,5**	70,5	64,2
public and publicly guaranteed external debt	% of GDP	18,8**	24,1	32,8
private non-guaranteed external debt	% of GDP	57,7**	46,3	31,4

\*according to preliminary data and estimates of NIS spanning the first three quarters of 2006

\*\*as of October, 2006. Source: BNB. BNB's estimate for Bulgaria's 2006 GDP is 24,199 million Euro.

2006 will mark the highest GDP growth rate over the past decade. According to preliminary data of the National Institute of Statistics (NIS) real GDP grew by 6.30% in the first three quarters of 2006 compared with same period previous year. Bulgaria continued to catch up towards the average per capita income in the European Union as its GDP growth far outpaced that of the EU-25, which grew 2.10% in the third quarter of 2006. According to Eurostat estimates, the gross domestic product per capita of Bulgaria in 2006 was 34.20% of the average rate in the EU-25, compared to 25.60% in 1997.

The prolonged period of relatively high economic growth and considerable investments has been reflected in the substantial reduction of unemployment in Bulgaria and approaching the average level in EU countries. According to data of the Employment Agency, the average unemployment rate for September (8.44%) was the lowest over the past 15 years. Unemployment is concentrated on people with low or no qualifications who have primary or no education at all. Demographic aging, emigration, inadequate education system and insufficiently flexible labour market urged many employers and investors in a number of economic areas to point out that lack of professional skills among workers was a major obstacle to Bulgaria's economic development.

Inflation remains the most serious hurdle that Bulgaria faces in its attempts to meet the EMU convergence criteria. The average annual inflation rate in 2006 was 7.30% – highest among the EU countries. Corrections in administratively determined prices during the year also had a substantial impact on inflation. The Ministry of Finance anticipates that accumulated inflation will decrease to 4.40% in 2007.

The surge in wages and the rapid household consumption growth resulting from the fast pace of credit expansion have created high inflationary pressures and contributed to the increase in the current account gap. According to data of the Bulgarian National Bank, the current account deficit during the period January–November 2006 increased to 3,114 million Euro (12.9% of GDP) compared with 2,012.1 million Euro (9.4% of GDP) for the same period of previous year. The good news is that the current account shortfall is 106.2% covered by the foreign direct investments (FDI), which amounted to a record 3,307.9 million Euro during the period January–November 2006. For comparison, FDI for the same period of 2005 covered barely 83.7% of deficit. The worsening trade balance made the greatest contribution to the increase in the current account deficit. The good thing is that earnings from tourism continued to rise and the outlined tendency of exports (+27.9%) growing faster than imports (+24.6%) consolidated.

The gross external debt continued to rise and at the end of October 2006 amounted to 18,515.4 million Euro, or 76.5% of GDP. The increase in external debt was chiefly due to buildup of private external debt, while public and publicly guaranteed debt was reduced in result of prepayment of loans owed to the IMF and the World Bank. A significant part of the private debt has been amassed as a result of investment goods imports, which is an important premise for overcoming external imbalances in the years to come.

## **EURO-FINANCE LTD. AND THE FINANCIAL MARKETS IN BULGARIA**

The financial sector in Bulgaria is undergoing dynamic development and is getting more and more efficient in serving as an intermediary between investors and economic agents. These processes have been boosted mainly by the political and financial stability, improvement of investment culture and perfection of the legislative framework, aimed at liberalization of the financial sector and provision of effective measures for protection of investor rights.

Banking business retains its dominant role in the field of financial intermediation, although there is a steady tendency towards increased activity in the non-banking financial services sector. According to data of the Financial Supervision Commission, at the end of September 2006 investment intermediaries accounted for 7.46% of financial intermediation services in Bulgaria compared with 1.05% for the same period in 2003.

New foreign investment intermediaries are expected to enter the country in 2007 owing to the integration of the Bulgarian non-banking financial services market into the EU market. These will likely increase competition and lead to improved quality and diversity of products and services offered. Normally, that should bring forth quick consolidation of the sector.

The chief advantages of Euro-finance Ltd. under these new conditions will be its flexibility, creativity and individual approach, aimed at effective customer satisfaction and building customer loyalty in the Company. In this respect, Euro-finance activities will focus on three main areas – 1) securities trading in financial markets; 2) individual portfolio management services; and 3) investment banking services.

## **1. SECURITIES TRADING IN FINANCIAL MARKETS**

### **Money markets and debt securities markets**

Since first tightening monetary policy in December 2005, the European Central Bank continued to steadily raise its benchmark refi rate throughout 2006, clearly signaling in advance of its next moves. The high degree of transparency and predictability of the ECB monetary policy led to significant reduction in volatility of short-term interest rates and shrinking of risk premiums.

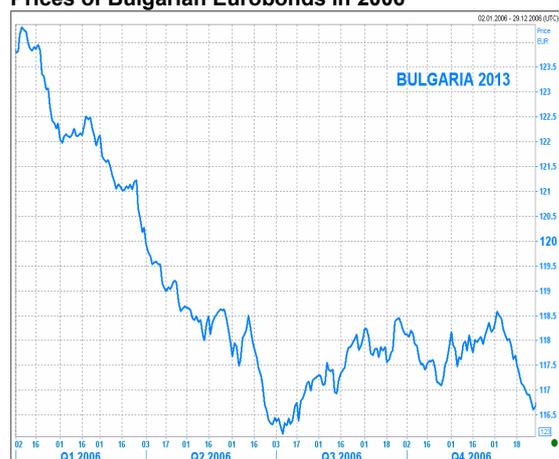
Gradually, as market participants grew more confident in ECB's resolve to cope with inflation and as the benchmark refinancing rate approached the generally accepted "neutral" level, the slope of the yield curve started to decline. This tendency emerged more sharply since mid May and at the end of the year, although briefly, the spread between the 2 and 10-year European benchmark debt securities inverted. In 2006 the yield to maturity at the 2-year end of the maturity spectrum rose by nearly 100 basis points, while that at the longer-term end – by approximately 60 basis points. 90% of the change in yield on 10-year bonds occurred in the first quarter of the year.

The Bulgarian interbank money market remained broadly stable throughout the year, demonstrating tight connection with the European market. The level of interest rates in Bulgaria changed in unison with that in the Eurozone. The money market continued to enjoy excellent liquidity and deposit instruments were once again the most commonly used. Overnight deposits accounted for more than 90% of overall deposits.

In 2006 international bond markets were the main factor that determined the behaviour of the Bulgarian debt securities market. Nevertheless, the local bond market was also influenced by some domestic market specifics like low level of secondary market activity and liquidity and steady decrease in the average quantities issued through government bond auctions. As a result of the above specifics (insufficient supply) a paradox occurred in the short-term end of the domestic yield curve, where the auction yield on Bulgarian 3-month bills was lower than that on German government securities with the same maturity. For purposes of boosting bond market liquidity, the Ministry of Finance and the Bulgarian National Bank are considering changes in the criteria for evaluation and selection of government securities primary dealers, as well as introduction of market makers in 2007.

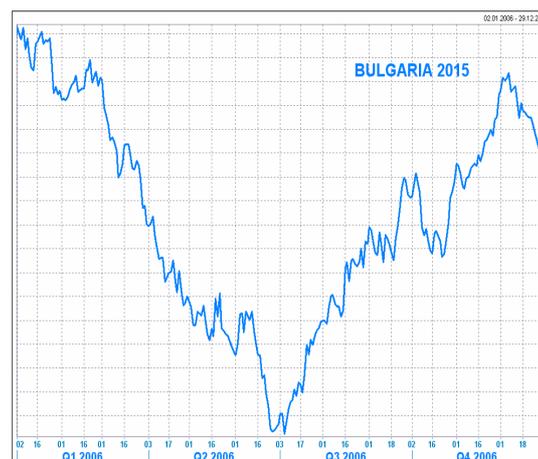
The pursuit of higher yields and the completion of the Fed's tightening cycle in August triggered strong investor interest in emerging market debt. Investor appetite for these instruments was fostered further by the gradual improvement in the economic and political situation of a number of developing countries. The sustained period of strong economic growth, political stability, fiscal discipline, bright EU membership outlook and the series of upgrades in the sovereign credit ratings of Bulgaria received from different rating agencies (the last one was in October when Standard and Poor's increased Bulgaria's long-term foreign currency debt rating from BBB to BBB+) led to shrinking of the country's risk premium.

### Prices of Bulgarian Eurobonds in 2006



Eurobond 2013 EUR

Source: Reuters



Eurobond 2015 USD

### Money market

In an attempt to optimize returns on short-term investments Euro-finance Ltd. gave preference to deposits placed abroad, which comprised 62.82% of total deposits. The total number of deposits placed rose threefold in 2006, while their volume increased by 13.2% compared with 2005. Meanwhile, owing to the increasing level of interest rates in the US and the Eurozone, the average term of deposits in 2006 fell to 2.9 days compared with 5.2 days in 2005 and 23 days in 2004.

### Total deposits placed

‘000	2006		2005	
	Number of deposits	Amount	Number of deposits	Amount
Total deposits placed, incl.:	511	1 156 404*	142	1 021 884*
denominated in local currency	31	31 840	-	-
denominated in euro	276	374 832	83	349 270
denominated in US dollars	204	263 595	59	228 120

\*denoted in BGN based on the BNB's fixed exchange rates for December 31, 2006

The Sentinel-Rapid Mutual Fund is another money market instrument of growing importance. It offers unlimited liquidity and competitive returns, establishing itself as an eligible alternative to deposits and repos. At the end of 2006 the net asset value of Sentinel-Rapid Mutual Fund exceeded BGN 1.4 million.

### Primary government bond market

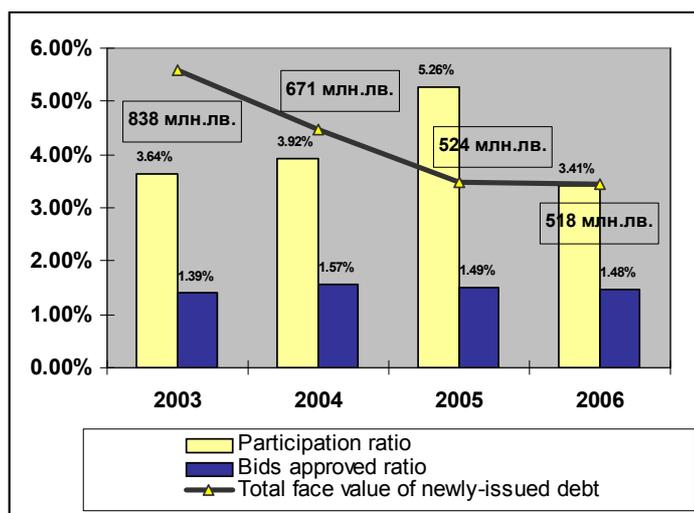
With reference to maturity structure and issued quantities the Ministry of Finance issuing policy in 2006 was broadly tracing the one from 2005 – the quantities of newly-issued debt have been reduced at the expense of short-term government securities.

Anti-inflationary monetary policy pursued by the ECB in 2006 contributed to the upward shift in the yield curve. The average annual yield at the long-term end of the maturity spectrum increased by 110-120 basis points compared to 2005. On the other hand, insufficient supply and improved credit ratings resulted in further reduction of credit-risk premiums on domestic debt.

### **Euro-finance participation in the Primary government bond market**

<b>BGN '000</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Total face value of newly-issued debt	517,730	524,337	671,129	838,479
Face value of bids submitted	17,650	27,594	26,282	30,562
Face value of bids approved	7,664	7,808	10,517	11,673

The legal framework regulating investment activities of insurance companies and pension funds has been loosened up and became more liberal in 2006, which allowed for increased opportunities to diversify their investment portfolios. In view of the wide range of investment alternatives, which provide better opportunities for optimizing institutional investors' portfolios, Euro-finance Ltd. reduced its participation in the primary government bond market and, instead, increased investments in domestic and foreign corporate debt securities. At the same time, Euro-finance Ltd. strengthened its effectiveness in the primary market by retaining a bids-approved ratio of 1.48% and reducing the total face value of bids submitted by 36%.



Secondary market for government bonds

The tendency towards gradual contraction of the yield-spread between the government and the corporate debt securities continued in 2006. Nevertheless, the corporate bond market was still more attractive to investors as it offered relatively higher returns and better liquidity. Euro-finance Ltd. responded to customer expectations of higher returns by reallocating investments from the government bond market to the domestic mortgage and corporate debt securities market, increasing its turnover within the sector (+136%) for the third consecutive year.

The more liberal investment regime regulating the activities of institutional investors led to increased investments in foreign government and corporate debt securities. The turnover in foreign debt securities, denominated in Euro, rose by nearly 70%. Transactions in foreign bonds, denominated in US dollars, increased by 15% in 2006 (reduction in turnover was due to significant decrease in speculative transactions in US Treasuries on expectations of higher interest rates in the United States).

**Transactions in the secondary bond market**

‘000	2006		2005	
	Number of transactions	Face value	Number of transactions	Face value
Transactions in Bulgarian government bonds:	550	219,809	878	268,355
with primary dealers/counterparties	91	94,331	149	107,114
with customers	459	125,478	669	161,241
Transactions in debt securities issued by local banks and companies, incl.:	590	36,907	648	40,044
transactions on the BSE-Sofia	351	10,459	207	4,431
OTC	146	7,746	389	36,198
Transactions in foreign debt securities:	356	79,216	227	91,416
denominated in euro	240	50,364	126	29,858
denominated in US dollars	116	28,852	101	61,558

Capital market

The Bulgarian stock exchange market underwent rapid growth in 2006. Prevailing positive sentiment among investors drove both indexes to fresh record highs. The total market capitalization of all the companies listed on the BSE-Sofia increased by 82% during the year and reached BGN 15.314 billion. As of December 22, 2006 – the last working day of the year on the BSE-Sofia – BTC topped the list of the large cap companies with its market cap of BGN 2.922 billion. Chimimport, which went public in October 2006, ranked second with a market value of BGN 990.6 million. Sopharma stepped back one place to third with a market capitalization of BGN 892.3 million. The blue-chip index SOFIX rose by 48% during the year, while the broader BG40 surged by 50%. The total turnover on the stock exchange in 2006 was BGN 3.384 billion, which is down 6% compared to the previous

year. According to data of the BSE-Sofia, the total number of stock exchange transactions in 2006 was 213,600 or 18% less compared with 2005. This was also the case for the total number of traded shares, which dropped 7% on yearly basis. The negative statistics data was due to decrease in the number of privatization transactions concluded on the stock exchange, as well as the limited number of centralized and unattended public auctions. The exceptional results of the Bulgarian stock exchange in 2005 were chiefly due to the privatization of BTC.

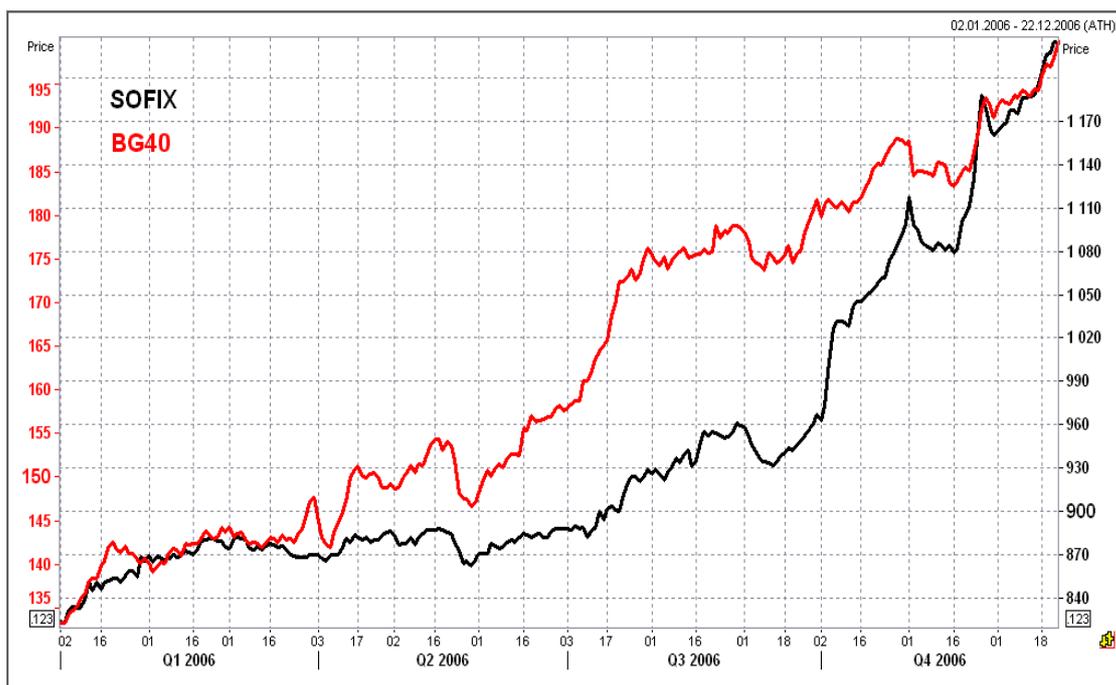
According to data of the BSE-Sofia, in 2006 Euro-finance Ltd. registered an 18% increase in the number of stock exchange transactions to 9,572. The company's turnover on the BSE-Sofia reached BGN 97.773 million, or up 180% compared with 2005.

During the last twelve months the number of institutional investors increased substantially, as did the value of their accumulated assets. The shortage of quality assets has been an additional incentive to the establishment of new CIS and SPVs. The total number of mutual funds and investment companies exceeded 40.

The stock market clearly established itself as an important source for companies to raise capital or float part of their equity. Last year a large number of companies increased their share capital boosting their free floats. These were mainly special purpose vehicles, followed by some blue-chip companies such as Euro Ins, Sopharma, Central Cooperative Bank, Bulgarian Rose Sevtopolis, M+C Hydraulic, Hydraulic Elements and Systems and Toplivo.

During the year a lot of companies have repeatedly increased their market value, but in many cases these price increases were not supported by the underlying fundamentals. Investors focused chiefly on the industrial sector, believed to be undervalued. In the second half of the year investors' focus shifted towards the companies operating in the infrastructure sector, where the overall increase in prices was astounding (in some cases beyond 3,000%). These stunning growth rates in the sector were attained as a result of the excessive market expectations of increased number and value of future infrastructural projects, orders and contracts after Bulgaria's entrance to the EU. Top gainers among the insurance companies were DZI, which rose 166% on yearly basis, followed by Euro Ins (+103.80%) and Bulstrad (+66.41%).

	<b>22.12.2006</b>	<b>28.12.2005</b>	<b>Change</b>
<b>SOFIX</b>	1224.12	825.53	48%
<b>BG40</b>	199.88	133.42	50%



	2006	2005	% Change
<b>BSE-Sofia</b>			
Turnover (BGN)	3,384,155,972	3,581,470,732	-6%
Number of transactions	213,600	259,189	-18%
<b>Euro-finance Ltd.</b>			
Turnover (BGN)	97,773,000	35,000,000	180%
Number of transactions	9,572	8,112	18%

Euro-finance Ltd. participated actively in all market segments, operating mainly on behalf of its customers. The Company also acted for its own account, entering into transactions for speculative purposes. The constantly increasing number of EFOCS (Euro-Finance On-line Customer Service) users made a substantial contribution to the increase in the Company's investment activity. By becoming a user of the on-line trading platform a customer gets direct access to real-time quotes for stocks traded on the BSE-Sofia and opportunity to trade on-line. The total number of orders for trading stocks listed on the BSE-Sofia, which have been submitted via EFOCS, reached 4,747 in 2006. For instance, in 2005 their number was just 1,691. The increase in net asset value of investment portfolios also contributed to the Company's investment activity in the stock market.

At the end of 2006 Euro-finance Ltd. became the first market maker in Bulgaria registered with the FSC, maintaining a two-sided market in Euro Ins common share (BSE code: EURINS) on the BSE-Sofia. This was well accepted by the investment community in Bulgaria as it provided additional liquidity and safety to investors, who have invested in the stock. In our opinion, new market makers, that will create and maintain a market for certain securities on the BSE-Sofia, will appear in 2007.

**Derivatives market/Financial engineering**

The considerable increase in the net value of assets under management on behalf of traditionally more conservative institutional investors has heightened the necessity for hedging against investment risk. Therefore, in January 2006 Euro-finance Ltd. expanded its product portfolio by entering the futures market. The yearly turnover in futures contracts, denominated in Euro, exceeded 85 million in 2006, while the turnover in futures contracts, denominated in US dollars, was 63 million.

The derivative instrument “Contracts for difference” (CFD), which gives a customer the ability to trade in the international equity markets, retained its position in the product portfolio of the Company. This derivative tool gives additional flexibility in management of individual aggressive growth portfolios and is highly preferred by customers with aggressive investor profile due to its ability to offer leveraged returns.

**Foreign exchange market**

In 2006 the Bulgarian lev rose 9.8% versus the US dollar. The exchange rate of the local currency against the US dollar hovered within the range of 1.65021 (February 27<sup>th</sup>) and 1.46713 (December 5<sup>th</sup>), reflecting changes in the EUR/USD exchange rate in the FX market.

Overall volume in the domestic foreign exchange market has continued to grow steadily reaching a record number of EUR 78.57 billion (according to data of the Bulgarian National Bank), which represents an increase of 59% compared to 2005. EUR/BGN foreign exchange transactions accounted for nearly 85% of total FX trade. The tendency towards steady increase in EUR/BGN transactions gathered pace in 2004, when the Bulgarian National Bank abolished commissions for non-cash EUR/BGN transactions.

In 2006 Euro-finance Ltd. continued to cover the whole range of FX transactions, including cash and non-cash transactions, margin FX via EFOCS, forward contracts and swap agreements. Euro-finance Ltd. increased its total FX transaction volume by more than 39%. As a result of the increased volume the Company’s net profit from FX operations surged by 15.6%. Total number of contracted deals (including non-cash transactions and cash deals with a single value above BGN 10,000) rose 20% compared to 2005. The number of customer speculative positions nearly doubled in 2006.

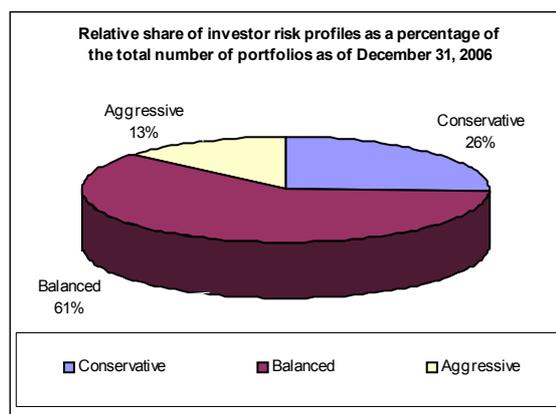
	2005	2006	% CHANGE
Amount of foreign currency bought ('000 BGN)	102,114*	142,120*	+39.2%
Profit before tax	54 458	62 986	+15.6%

\* In the table above the amount of foreign currency bought is denoted in BGN based on bid prices for the respective currencies. The percentage increase in the total transaction volume in original currencies is actually larger than the one shown in the table owing to the depreciation of the US dollar.

## **2. INDIVIDUAL PORTFOLIO MANAGEMENT**

Individual portfolios provide the same advantages as collective investment schemes (CIS) – professional asset management and diversification. Unlike CIS, however, individual portfolios can be individually tailored to fit the personal expectations of the customer regarding return on assets, his/her initial resources, time horizon and risk propensity. This product inscribes itself very good into the philosophy of the Company and is actually one of the main tools for implementation of individual approach, flexibility and creativity into practice aimed at increasing customer satisfaction.

As an individual portfolio manager Euro-finance Ltd. stucked to the purposely-designed basic risk profiles – conservative, balanced and aggressive. Upon developing a specific investment strategy the original risk profiles may be modified taking into account the individual preferences of the customer. The relative weight of the different risk profiles according to the number of portfolios included shows the following: balanced portfolios accounted for the largest share (61.11%), while the number of aggressive portfolios increased by 13.33%. The positive sentiment among individual investors, buoyed by the astounding increase in SOFIX and BG40, contributed broadly to this portfolio distribution.



The last year has been far from good for investors, who have chosen to invest in European benchmark securities (conservative investors) due to the anti-inflationary monetary policy pursued by the ECB in 2006. The German 10-year Bund produced a negative annual return of 1.28%. Considering the above, conservative institutional investors should be exceptionally satisfied. Returns on aggressive portfolios increased considerably (in the range of 21.33 – 45.90%) in result of the general capital market upswing.

The unquestionable success in individual portfolio management did not go unnoticed by our clients. The Company's professionalism is held in high esteem by the private entities and institutional investors. The tendency towards steady increase in the average value of a portfolio gives further proof of the Company's ability to swiftly respond to the high expectations of its customers.

### **INVESTMENT BANKING**

2006 was another successful year for the investment banking business of the Company. A number of investment projects in the area of corporate management, financing and restructuring have been realized.

The most significant project in the fields of investment banking in 2006 was the performance of the Contract for provision of consulting services in the process of restructuring and sale of the government stake in Bulgartabak Holding. A consortium including Euro-finance Ltd., attorney partnership "Subev & Co." and Balkan Consultant Company was chosen as a consultant for the Holding at a public contest. The scope of the contract covered all preliminary stages and subsequent privatization of the 11 companies included in Bulgartabak Holding.

Before the end of 2006 Euro-finance Ltd. has prepared information memorandums and has evaluated the companies in the Holding group. "A virtual data room" has been set up for the first time in Bulgaria. The successful sale of "Yuri Gagarin – BT", specialized in the production of packages and filters, was considered a remarkable achievement. The company was sold through a public offering of securities upon recommendation from the consortium, and the price attained has exceeded the seller's preliminary expectations.

Procedures for sale of other 3 tobacco processing plants have been conducted before the end of 2006. “Pazardjik BT” and “Dupnitsa BT” were offered for sale through public offering, while “Sandanski BT” - through a public contest. In the beginning of 2007 the procedures for the sale of the remaining tobacco processing companies in the Holding are expected to be announced and finalized.

Another high-priority project in the fields of investment banking was listing of Euro Ins common stock for trading on the BSE-Sofia in January 2006. Euro Ins became the first insurance company in Bulgaria that has appraised the advantages of going public and listed its securities for trading on the BSE-Sofia on its own initiative. The company’s common stock was well accepted by the investment community and posted an increase of 255% on an annual basis. The excellent liquidity of the company’s shares led naturally to its inclusion in the broad-based index BG40.

In June 2006 Euro Ins successfully concluded its capital increase with rights issue of 1.5 million new individual share certificates. The company accumulated BGN 5 million used for optimization of the company’s insurance policy.

In 2006 Euro-finance Ltd. prepared a tender offer with respect to shares of Eurohold Bulgaria – the largest shareholder in Euro Ins. The tender offer was made on behalf of the majority shareholder resulting from the restructuring of Eurohold and Starcom Holding, which gave birth to a new public company Eurohold Bulgaria. The tender offer was approved by the Financial Supervision Commission in the beginning of 2007.

The partnership between Euro-finance Ltd. and Bulland Investment – a REIT focusing mainly on investments in agricultural land – continued in 2006 with an initial capital increase procedure. The prospectus for public offering of securities was approved by the Financial Supervision Commission. Euro-finance Ltd. signed an underwriting agreement for the rights issue and managed the subsequent public offering of the whole issue on the BSE-Sofia. For the first time an auction for sale of rights on the Bulgarian stock exchange was organized in several stages spanning several trading sessions. The proceeds of BGN 5.5 million from the share capital increase were used for company’s expansion plans.

In 2006 Euro-finance Ltd. realized a project for overall consulting and development of a unique special purpose vehicle, specialized in securitization of receivables under energy saving initiatives – Fund for Energetics and Energetic Efficiency (FEEE). The company is part of Enemona construction group and is intended to improve the position of the group in the energy saving business. The procedures for initial capital increase of FEEE were completed successfully in August 2006.

In June 2006 a project for overall business consulting of the 3S SOT Group was initiated. After an elaborate analysis of the company's businesses Euro-finance Ltd. agreed to perform the necessary business concentration procedures. Euro-finance Ltd. made analyses, estimates and plans for the restructuring of the 34 companies in the group. The project is expected to be finalized some time around the middle of the 2007.

Another project in the area of business consulting in 2006 was the performed analysis of PONS Holding tourist business. The management of the Holding received conclusive position and offer on behalf of Euro-finance Ltd.

The outlook for the development of the investment banking services sector in 2007 remains bright. Euro-finance Ltd. will manage the share capital increase of several public companies, the most significant of which will be the capital increase of Eurohold Bulgaria. Euro-finance Ltd. has signed a contract for overall consulting and development of a new special purpose vehicle aimed at securitization of real property. Euro-finance ltd. prepares a prospectus for listing of a new company operating in the chemical sector.

**MANDATORY DISCLOSURE OF OTHER RELEVANT INFORMATION**

The current Board of Directors of Euro-finance Ltd. includes:

Chavdar Kunchev	Chairman
Asen Hristov	Deputy Chairman (since October 16, 2006)
Simeon Petkov	Chief Executive Officer
Yordan Popov	Executive Director
Kiril Boshov	Member of the Board (since October 16, 2006)

Mr. Dimitar Atanasov and Mr. Ventsislav Antonov were dismissed as members of the Board of Directors pursuant to the decision taken by the General Meeting of October 16, 2006. The members of the Board of Directors were granted a discharge from liability on the same date.

On October 17, 2006 Mr. Ch. Kunchev and Mr. S. Petkov have transferred their ownership stakes in the company. At present, the company is jointly owned by Eurohold Bulgaria and Euro Ins. Eurohold Bulgaria has a controlling stake in Euro Ins. The ownership transfer, which the BNB has been duly notified of, has been approved beforehand by the FSC.

The members of the Board of Directors do not currently own shares and/or bonds issued by Euro-finance Ltd. and have not been granted special rights or any stock or bond options whatsoever.

No member of the Board owns stock in an unlimited liability company.

Mr. Chavdar Kunchev owns over 25% of the following companies:

- KLIFT – Sofia;
- AUTOTRANS SREDETS – Sofia.

Mr. Asen Hristov owns over 25% of the following companies:

- BULGARIAN HOLDING CORPORATION – Etropole;
- ALFA EUROAKTIV – Sofia;
- CORPORATE ADVISERS – Sofia;
- CAPITAL 3000 – Sofia.

Mr. Kiril Boshov owns over 25% of the following companies:

- BULGARIAN HOLDING CORPORATION – Etropole;
- ALCOMMERCE – Sofia.

Mr. Chavdar Kunchev is also a member of the Managing Board of AUTOTRANS SREDETS – Sofia and KLIFT – Sofia.

Mr. Asen Hristov is also a member of the Managing Board of SCANDINAVIAN MOTORS – Sofia, EUROHOLD BULGARIA – Sofia, SPORTPROEKT – Sofia, GEOENERGOPROEKT – Sofia, EURO INS – Sofia, ALFA EUROAKTIV – Sofia, CORPORATE ADVISERS – Sofia, BULSTAR INVESTMENT – Pazardjik, EUROTTEST–CONTROL – Sofia and FORMOPLAST – Kurdjali.

Mr. Simeon Petkov is also a member of the Managing Board of Management Company SENTINEL ASSET MANAGEMENT – Sofia, KLIFT – Sofia, EUROSYS – Sofia, AUTOTRANS SREDETS – Sofia.

Mr. Yordan Popov is also a member of the Managing Board of Management Company SENTINEL ASSET MANAGEMENT – Sofia.

Mr. Kiril Boshov is also a member of the Managing Board of ALCOMMERCE – Sofia, SCANDINAVIAN MOTORS – Sofia, EUROHOLD BULGARIA – Sofia, SPORTPROEKT – Sofia, EUROFORUM – Sofia, EUROAUTO – Sofia, CAPITAL 3000 – Sofia, STARCOM ASSET LEASING – Sofia, EUROLEASE AUTO – Sofia, EUROHOTELS – Samokov, Health insurance company SVETI NIKOLAI CHUDOTVORETS – Sofia, GEOENERGOPROEKT – Sofia and EURO INS – Sofia.

During the reported period the Board of Directors took a decision to sell real property pursuant to the provisions of article 240b of the Commercial Act, which is outside the ordinary activities of the company.

The total gross remuneration of the Board of Directors in 2006 amounted to BGN 148,400.

During this year the Company will concentrate its efforts on retaining and expanding its market position. Investment banking will be the Company's main business focus.

The management of the Company had no knowledge of any pending deals that might significantly impact the business of the Company during the preparation of this report.

**Sofia,  
February 12, 2007**

**BOARD OF DIRECTORS**

## FINANCIAL STATEMENTS AS AT 31.12.2006

## INCOME STATEMENT

	<u>NOTES</u>	<u>31.12.2006</u> BGN'000	<u>31.12.2004</u> BGN'000
Income from interest and other similar income		611	1,325
Expenses on interest and other similar expenses		(541)	(1,181)
<b>Net income from interest</b>		<b>70</b>	<b>144</b>
Other income from operating activity	3	1,616	1,058
<b>Gross income from operating activity</b>		<b>1,686</b>	<b>1,202</b>
Administrative expenses	4	(858)	(714)
<b>Net result before extraordinary items and taxation</b>		<b>828</b>	<b>488</b>
Result from extraordinary items		-	-
<b>Net result before taxation</b>		<b>828</b>	<b>488</b>
Tax expenses	5	(118)	(65)
<b>Profit (loss)</b>		<b>710</b>	<b>423</b>

## BALANCE SHEET

AS AT 31.12.2006

	<u>NOTES</u>	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
<b>Long-term assets</b>			
Investments in subsidiaries and associated companies	6	132	132
Fixed non-financial assets	7	105	717
<b>Long-term assets</b>		<b>237</b>	<b>849</b>
<b>Current assets</b>			
Current non-financial assets	8	84	84
Cash	9	2,076	839
Capital securities	10	706	331
Debt securities	11	810	1,586
Other short-term assets	12	270	16,462
Deferred expenses	13	2	2
		<b>3,948</b>	<b>19,304</b>
<b>Total assets</b>		<b>4,185</b>	<b>20,153</b>

## BALANCE SHEET

AS AT 31.12.2006 г. - CONTINUED

	<u>NOTES</u>	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity and reserves</b>			
Share capital	14	1,500	1,500
General reserves	15	150	140
Other reserves	16	197	197
Revaluation reserve	17	0	49
Previous period result		49	1
Current period result		710	423
		<b>2,606</b>	<b>2,310</b>
<b>Long-term liabilities</b>			
	18	50	50
		<b>50</b>	<b>50</b>
<b>Current liabilities</b>			
Tax payables	19	110	11
Other	20	1,419	17,782
		<b>1,529</b>	<b>17,793</b>
<b>Total equity and liabilities</b>		<b>4,185</b>	<b>20,153</b>

## CASH FLOW STATEMENT

AS AT 31.12.2006

	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
Net profit	710	423
Adjustments for:		
Depreciation	22	40
Change in short-term assets	16,593	(5,458)
Changes in deferred expenses	-	(1)
Change in current liabilities and corrections	(16,264)	4,290
<b>Cash flow from operating activities</b>	<b>1,061</b>	<b>(706)</b>
<b>Cash flow from non-specialized investing activities</b>	<b>590</b>	<b>(132)</b>
<b>Cash flow from financing activities</b>	<b>(414)</b>	<b>(312)</b>
<b>Net cash flow</b>	<b>1,237</b>	<b>(1,150)</b>
Cash at the beginning of the year	839	1,989
Cash at the end of the year	<b>2,076</b>	<b>839</b>

## EQUITY STATEMENT

AS AT 31.12.2006

	SHARE CAPITAL BGN'000	GENERAL RESERVES BGN'000	OTHER RESERVES BGN'000	REVALUATION RESERVE BGN'000	PROFIT (LOSS) BGN'000	TOTAL BGN'000
Balance as at 31.12.2005	1,500	140	197	49	424	2,310
Financial result as at 31.12.2006					710	710
Profit allocation		10			(424)	(414)
<i>Incl. Dividends</i>					(401)	
<i>Other earnings</i>					(13)	
Other changes				(49)	49	-
Balance as at 31.12.2006	1,500	150	197	-	759	2,606

## NOTES TO THE FINANCIAL STATEMENTS

AS AT 31.12.2006

### 1. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The International Financial Reporting Standards accepted by the European Union Commission are applicable for the Republic of Bulgaria. The International Financial Reporting Standards are accepted by Council of Ministers under the suggestion of the Ministry of Finance and the Standards are promulgated in State Gazette. Due to the fact that they have not been promulgated yet the frame IAS, base 2005, is applicable for Bulgaria in 2006.

The management presents its financial statements as of 31 December 2006, prepared in accordance with International Accounting Standards (IAS, base 2005) which is in accordance with the National Accounting legislation.

These financial statements are presented in Bulgarian Leva (BGN) since the main transactions are in this currency.

### 2. ACCOUNTING POLICY

#### THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (IAS 21)

According to the requirements of the Bulgarian legislation the company keeps the accounting registers in BGN. The Bulgarian lev is fixed to EUR: EUR 1 = BGN 1.95583. The financial statements have been prepared in thousand BGN (hereinafter referred to as TBGN).

**Foreign currency transactions** are recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the central exchange rate of Bulgarian National Bank (BNB) as at the date of the transaction.

In the annual financial statements and in the interim financial statements the foreign currency monetary and non-monetary items are reported as follows:

- foreign currency monetary items are reported using the closing exchange rate and during the year – considering the central exchange rate of BNB as at the date of preparation of the statements.
- foreign currency non-monetary items, measured at fair value in foreign currency, are reported using the exchange rate as at the date on which the fair value is determined.

Currency exchange differences originating from the fluctuation of exchange rates are disclosed in the Income Statement.

## INCOME AND EXPENSES RECOGNITION

**Measurement of income** - The income is defined by the fair value of the consideration received or receivable in the form of cash or cash equivalent.

Income is formed based on the accrual principle for interest, commissions etc.

Income is stated in the financial result for the period in which the activity is carried out, regardless of the period of repayment.

**Expenses** are accounted for and charged to the income statement so as to cover the period up to the end of the financial period.

## PROPERTY, PLANT AND EQUIPMENT (IAS 16)

The property, plant and equipment represent real estates, machines, equipment, vehicles and implements with acquisition price over BGN 150 and individually determined over one year usage period.

**Initially the property, plant and equipment** have been accounted for at their acquisition price that includes the purchase price (including duties and non-refundable taxes) and all direct expenses.

**Subsequent expenses** – the net-book value of every single property, plant and equipment is corrected with the subsequent expenses connected with it when it is probable that an economic benefit will flow to the company exceeding the originally assessed standard of performance of the existing asset.

**Measurement subsequent to initial recognition** – The alternative approach is allowed for land and buildings. After its initial recognition every single property, plant and equipment is accounted at acquisition price less depreciation and adjusted with revaluation.

All other property, plant and equipment were accounted considering the benchmark treatment - acquisition price less depreciation accrued and accumulated impairment loss.

**Recoverability of the carrying value** – The company reconsiders the carrying value of the property, plant and equipment and determines their recoverable value. When no economic benefit is expected to flow the asset is disposed.

**Writing-off of property, plant and equipment** from the Balance Sheet is carried out when selling the asset or when the asset is completely out of use and no other economic benefit is expected to flow after the disposal.

**The depreciation of the property, plant and equipment** is accrued following the straight-line method during their useful life and their cost or revalued amount is reduced to the amount of their residual value with the following annual depreciation rates:

- Buildings	- 4%;
- Machines and equipment	- 30%;
- Computers, software and rights for use of software	- 50%;
- Vehicles	- 25%;
- Other	- 15%

### **INTANGIBLE ASSETS (IAS 38)**

**The intangible assets** represent software and licences.

**Initially the intangible assets** have been accounted for at their acquisition price that includes the purchase price (including duties and non-refundable taxes) and all direct expenses for the preparation of the asset for its functional use.

**Measurement subsequent to initial recognition** – the intangible assets are accounted at acquisition price (prime cost) less depreciation and eventual accumulated impairment loss.

**Recoverability of the carrying value** – The company does not determine the recoverable amount. When sufficient reliable conditions exist the company reconsiders the carrying value of intangible assets and determines their recoverable amount.

**Writing-off of intangible assets** from the Balance Sheet is carried out when selling the asset or when the asset is completely out of use and no other economic benefit is expected to flow after the disposal.

The **depreciation of the intangible assets** is accrued following the straight-line method with the following depreciation rates:

- Software and rights for use of software	- 50%.
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**The accrual of depreciation** starts from the month following the month of acquisition or entering into exploitation of the depreciable asset.

The Company uses software developed by specialists in the Company. The software is an exclusive property of EURO-FINANCE Ltd. The expenses on the software development are reported in the years of their occurrence. The rights to distribute software, designated to service the activity of financial institutions - investment intermediary, are conceded to subsidiary company EUROSYS EOOD.

**INVESTMENTS IN ASSOCIATED COMPANIES (IAS 27 AND IAS 28)**

**Initially the financial assets** have been accounted for at their acquisition price that includes the fair value and all transaction costs.

The financial assets in associated companies are disclosed at acquisition price (prime cost). Due to the fact that company's investments in associated companies are not dealt actively on the stock exchange, their fair value cannot be determined with reasonable assurance, including by applying alternative methods.

**FINANCIAL INSTRUMENTS (IAS 32, 39)**

**The financial instruments are classified as held for trading:**

Initially the financial instruments are measured at acquisition cost that includes the fair value plus all transaction expenses.

After the initial recognition the financial assets are measured at cost that is the selling, stock exchange or market value.

The revaluation of the assets is executed at the end of every month as their market value is determined according to the requirements of the legal documents:

- Securities of Bulgarian emitters traded on the Bulgarian Stock Exchange Sofia AD – the weighted average cost of the deals concluded with them on a regulated market for the closest date of the last 30-days period, on which these securities have been traded in volume not less than the one of the securities possessed by Euro-Finace Ltd. If there is no deal concluded, the market price of the securities is measured following a method price “buy” announced on the regulated market for the relative session on the closest date of the last 30-days period.
- Shares in foreign currency of foreign emitters – considering the market prices of the foreign stock exchanges: FRANKFURT, XETRA, NASDAQ;
- Government securities issued by Bulgarian Government – the market price is the price quoted by Bulgarian National Bank (BNB) or the primary dealers of Government securities following the requirements of Regulation № 5/1998;
- Securities issued by Bulgarian non government emitters – the market value from REUTERS;
- Securities issued or guaranteed by foreign countries and securities issued by foreign non-government emitters – market value by REUTERS.

**TAXES**

According to the Bulgarian tax legislation the company is taxed with a corporate tax. The tax rate for the profit tax is 15%.

The company is registered under the Value Added Tax Act and accrues 20% tax for the committed sales.

**RISK MANAGEMENT**

Significant risks may be classified in three major categories – credit risk, market risk, liquidity risk and currency risk.

*Credit risk*

Credit risk arises from the possibility of customers or counterparties failing to meet their obligations.

Company's credit risk is primary attributable to its trade and financial receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the management based on prior experience and current economic environment.

The credit risk on liquid funds and financial instruments is limited because the counterparties are predominantly banks with high credit rating.

The company has no significant concentration of credit risk, which exposure spread over a large number of counterparties and customers.

*Market risk*

Market risk arises from the effect of changes in market environment – change in market prices of financial instruments, in foreign exchange rates, in interest rates.

*Liquidity risk*

Liquidity risk arises from the timing of cash flows of company's assets, liabilities and off-balance sheet instruments.

Company's management has established the necessary structure and organization for risk management.

*Currency risk*

As a result of the Currency Board in the country the Bulgarian currency is fixed to EUR. Due to the fact that the company prepares its statements in BGN these statements are exposed on the effect of the changes in the currency exchange rates only with view to currencies outside the EUR zone and BGN zone.

**DERIVATIVES**

A derivative is an off-balance sheet financial instruments that derives its value from an underlying rates or price as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure.

The most frequently used derivative contracts are:

- Currency swap;
- Interest rate swap;
- Caps and floors;
- Forward currency and interest rate agreements;
- Futures;
- Options.

Terms and conditions are determined by using standard documents.

Derivatives are subject of the same market and credit risk control procedures as are applied to other financial instruments and are aggregated with other exposures to monitor total counterparty exposure, which is managed within approved limits for each counterparty.

Derivatives are used for trading purposes or as hedging activity for the management of interest rate and foreign exchange rate risk.

Derivatives used for trading purposes are measured at fair value and any gains or losses are shown in the income statement as dealing profit/loss.

Derivatives used for hedging purposes are accounted for based on the accounting treatment on the item being hedged. The criteria for a derivative to be treated as a hedge are the existence of documented evidence of the intention to hedge a specific exposure and the hedge instrument should provide a reasonable basis for eliminating risk.

When a specific exposure, which is being hedge, ceases to exist the derivative is transferred to the trading book at fair value. The profit or loss arising is recognized immediately in the income statement in the same category as the item being hedged.

Hedge transactions which are terminated early and where the exposure still exists are valued at fair value and the profit and loss is amortized over the period of the exposure being hedged.

#### **INVESTORS' SECURITIES**

Clients' securities are initially accounted for at the order price. Subsequent measurement is made applying the fair value method for those securities, for which the latter may be determined. The differences in values resulting from fair value changes are accounted for as increase or decrease in the value of securities.

For the Financial Supervision Committee (FSC) the company prepares a report with information for the clients' securities and cash, as well as for the payables on these. Further information is represented in Additional Information Section for better understanding of the Financial Statements and the activity.

### 3. OTHER INCOME FROM OPERATING ACTIVITY

The structure of other income from operating activity is specified below:

	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
Income from exchange rate fluctuations	956	2,210
Expenses on exchange rate fluctuations	(901)	(2,156)
Net result from exchange rate fluctuations	<u>55</u>	<u>54</u>
Income from participation	56	28
Income from operations with financial assets and instruments	1,647	1,352
Expenses on operations with financial assets and instruments	(1,427)	(1,150)
Net result from operations with financial assets and instruments	<u>220</u>	<u>202</u>
Income from sales of fixed assets	780	-
Balance cost of sold fixed assets	(675)	-
Income fom sales of assets	<u>105</u>	<u>-</u>
Income from other financing operations	1,262	832
Expenses on other financing operations	(82)	(58)
Net result from other financing operations	<u>1,180</u>	<u>774</u>
	<b><u>1,616</u></b>	<b><u>1,058</u></b>

### 4. ADMINISTRATIVE EXPENSES

	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
Expenses on materials and hired services	(185)	(154)
Expenses on salaries and social security	(599)	(464)
Depreciation	(22)	(40)
Other	(52)	(55)
	<b><u>(858)</u></b>	<b><u>(769)</u></b>

**5. TAX EXPENSES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Current tax	(118)	(65)
	<b>(118)</b>	<b>(65)</b>
	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Profit before taxes	828	488
Profit tax - tax rate 15 % (19.5% 2004 r)	(124)	(73)
Tax effect from expenses not recognized for tax purposes and tax relieves	5	6
Tax effect from temporary defereces	1	2
<b>Tax expenses</b>	<b>(118)</b>	<b>(65)</b>

**6. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Investments in subsidiaries	130	130
Minority participation	2	2
	<b>132</b>	<b>132</b>

Investments in subsidiaries:

	<b>31.12.2006</b>	<b>% of capital</b>	<b>31.12.2005</b>	<b>% of capital</b>
Eurosys EOOD	5	100	5	100
Sentinel Asset Management	125	50	125	50
	<b>130</b>		<b>130</b>	

Company's long-term financial assets represent mainly participation in companies, which are not dealt actively on the stock exchange, thus their fair value could not be defined with the necessary level of assurance. The management considers that there are no conditions for impairment.

**7. FIXED NON-FINANCIAL ASSETS**

The group of fixed non-financial assets includes:

	<u>31.12.2006</u>	<u>31.12.20045</u>
	BGN'000	BGN'000
Property, plant and equipment	85	698
Intangible assets	20	19
	<b><u>105</u></b>	<b><u>717</u></b>

The structure of property, plant and equipment is specified below:

	Land and buildings	Machinery and equipment	Other	Computer equipment and peripherals	Total
<b>Cost</b>					
As at 31.12.2005	702	51	208	137	1,098
Acquired		-	72	8	80
Disposals	(702)	-	-	(5)	(707)
As at 31.12.2006	<u>-</u>	<u>51</u>	<u>280</u>	<u>140</u>	<u>471</u>
<b>Depreciation</b>					
As at 31.12.2005	(22)	(51)	(200)	(127)	(400)
Depreciation for the year	(5)	-	(3)	(10)	(18)
Disposals	27	-	-	5	32
As at 31.12.2006	<u>-</u>	<u>(51)</u>	<u>(203)</u>	<u>(132)</u>	<u>(386)</u>
<b>Carrying value</b>					
As at 31.12.2005	<u>680</u>	<u>-</u>	<u>8</u>	<u>10</u>	<u>698</u>
As at 31.12.2006	<u>-</u>	<u>-</u>	<u>77</u>	<u>8</u>	<u>85</u>

The structure of Intangible Assets is specified below:

	Licence
<b>Cost</b>	
As at 31.12.2005	23
Acquired	5
Disposals	-
As at 31.12.2006	<u>28</u>
<b>Depreciation</b>	
As at 31.12.2005	(4)
Depreciation for the year	(4)
Disposals	
As at 31.12.2006	<u>(8)</u>
<b>Carrying value</b>	
As at 31.12.2005	<u>19</u>
As at 31.12.2006	<u>20</u>

## 8. CURRENT NON-FINANCIAL ASSETS

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Assets for trade	84	84
	<b>84</b>	<b>84</b>

## 9. CASH

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Cash on hand	906	126
Cash in current accounts	420	544
Other	750	169
	<b>2,076</b>	<b>839</b>

Breakdown of cash is, as follows:

	Euro- finance Ltd	Clients	Total
Cash on hand	906	-	906
Cash in current accounts	89	331	420
Other	114	636	750
	<u>1,109</u>	<u>967</u>	<u>2,076</u>

## 10. CAPITAL SECURITIES

	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
Capital securities (additional information)	706	331
	<u>706</u>	<u>331</u>

## 11. DEBT SECURITIES

The structure of debt securities is, as follows (additional information):

	<u>31.12.2006</u> BGN'000	<u>Share</u> %	<u>31.12.2005</u> BGN'000	<u>Share</u> %
Government securities	272	34	787	50
Bonds	526	65	783	49
Other	12	1	16	1
	<u>810</u>	<u>100</u>	<u>1,586</u>	<u>100</u>

## 12. OTHER SHORT-TERM FINANCIAL ASSETS

The structure of debt securities is, as follows (additional information):

	<u>31.12.2006</u> BGN'000	<u>31.12.2005</u> BGN'000
Receivables form repo-deals	59	16,326
Receivables from clients	157	94
Relations with authorities	2	2
Receivables from participation	44	24
Other	8	16
	<u>270</u>	<u>16,462</u>

**13. DEFERRED EXPENSES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Deferred expenses	2	2
	<u>2</u>	<u>2</u>

The prepaid expenses concerning the following reported periods are stated as deferred expenses.

**14. SHARE CAPITAL**

During the current period the company capital is TBGN 1,500 divided into 1,500 thousand pieces of personal shares. The face value of each share is BGN 1. The amount of the share capital has not been changed in comparison with the previous year, the structure has been changed.

The structure of share capital is as follows:

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Physical persons	-	1,500
<i>Chavdar Kunchev</i>	-	1,275
<i>Simeon Petkov</i>	-	225
Juridical persons	1,500	
<i>Starcom Holding AD</i>	1,352	
<i>EURO INS AD</i>	148	
	<u>1,500</u>	<u>1,500</u>

**15. GENERAL RESERVES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
General reserves	150	140
	<u>150</u>	<u>140</u>

The general reserves have been set up according to Commercial Act. The increase of TBGN 10 compared to 2005 is a result of allocation of the prior year profit.

**16. ADDITIONAL RESERVES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Additional reserves	197	197
	<u>197</u>	<u>197</u>

**17. REVALUATION RESERVE**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Revaluation reserve	-	49
	<u>-</u>	<u>49</u>

**18. LONG-TERM LIABILITIES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Other long-term liabilities	50	50
	<u>50</u>	<u>50</u>

They represent received funds as a debt hybrid instrument (Note 21).

**19. TAX PAYABLES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Tax payables	110	11
	<u>110</u>	<u>11</u>

**20. OTHER SHORT-TERM PAYABLES**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Other short-term payables		
- payables from operating activity	1,411	17,774
- payables to suppliers	8	8
	<u>1,419</u>	<u>17,782</u>

As at 31.12.2006 their breakdown is, as follows:

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Payables to investors	967	511
Payables to clients (under trustee management contracts)	-	6
Payables from currency transactions	2	53
Payables from repo-deals	296	17,175
Payables to staff and social security	44	-
Relations with financial institutions	8	-
Other	94	29
	<u>1,411</u>	<u>17,774</u>

## 21. RELATED PARTIES

Company's receivables and payables to related parties as at 31.12.2006 are as follows:

### Long-term liabilities (Note 18)

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Personnel	50	50
	<u>50</u>	<u>50</u>

### **Short-term receivables**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Receivables from participation – Eurosys EOOD	44	24
	<u>44</u>	<u>24</u>

### **Income from related parties**

	<u>31.12.2006</u>	<u>31.12.2005</u>
	BGN'000	BGN'000
Income from dividends– Eurosys EOOD	44	24
	<u>44</u>	<u>24</u>

## 22. EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events taken place between the account date and the date of this report that could change the Financial Statements as at 31.12.2006 г.

## 23. APPROVAL OF THE FINANCIAL STATEMENTS

The Financial Statements were approved by company's management and were signed on its behalf by:

Simeon Petkov

Chief Executive Manager



**TO**  
**THE SHAREHOLDERS**  
**OF EURO-FINANCE LTD.**  
**SOFIA**

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of EURO-FINANCE LTD, which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of EURO-FINANCE LTD. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Matter of emphasis

Without qualifying our opinion, we draw attention to the following:

The company manages securities under custody amounting to TBGN 126,925 as at 31 December 2006 (TBGN 67,420 as at 31.12.2005).

Sofia, 12 February 2007

**BDO AKERO Ltd.**



Stoyanka Apostolova, Managing partner  
CPA, Registered auditor

**ADDITIONAL INFORMATION FOR BETTER UNDERSTANDING OF THE FINANCIAL STATEMENTS**

**SECURITIES OWNED BY EURO-FINANCE LTD.**

**Structure of capital securities**

In TBGN

Asset	Code	Name	Number 31.12.2006	Number 31.12.2005	Currency	Market value 31.12.2006	Market value 31.12.2005
1	2	3	4	5	6	7	8
Shares	BMG3638V1248	Forsyth Leveraged diversity fund	150,000	438,999	EUR	36	97
Shares	KYG3639A1452	Forsyth Alternative Income R Class Shares	1,409	41,409	USD	-	8
Shares	US5949181045	Microsoft Corp.	40	40	EUR	2	2
Shares	FI0009000681	Nokia Corp.	30	30	EUR	1	1
Shares	US68389X1054	Oracle Corporation	160	160	USD	4	3
Shares	AU000000CUV3	Clinuvel Pharmaceuticals	14,285	-	EUR	13	-
Shares	BG1100016978B	BSE AD	40,000	2,000	BGN		
Shares	BG1100038048	E R G Capital- 1 SPE	40,420	55,000	BGN	140	152
Shares	BG9000002055	Matual Fund Sentinel Principal	25,234	45,606	BGN	28	45
Shares	BG11BIPEAT11	Biovet AD	500	-	BGN	9	-
Shares	BG11MESAAT13	Medica AD	1	-	BGN	-	-
Shares	BG110000CDAD	Central Depository AD	1	-	BGN	-	-
Shares	BG11TOSOAT18	Toplivo AD	500	-	BGN	9	-
Shares	BG1100081055	IC Euro Ins. AD	15,027	-	BGN	123	-
Shares	BG1100067054	Bulland Invetsments SPE	261,900	-	BGN	218	-
Shares	BG1100030052	E R G Capital- 1 SPE	30,000	-	BGN	108	-
Shares	BG1100075065	Monbat AD	2,190	-	BGN	15	-
						<b>706</b>	<b>331</b>

**Structure of debt securities****Government securities:**

In TBGN

Asset	Code	Name	Number 31.12.2006	Number 31.12.2005	Currency	Market value	
						31.12.2006	31.12.2005
GS	BG2030003110	Republic Bulgaria Ministry of Finance		-	BGN		-
GS	BG2030102110	Republic Bulgaria Ministry of Finance		-	BGN		-
GS	BG2030104116	Republic Bulgaria Ministry of Finance		330,000	USD		330
GS	BG2040001211	Republic Bulgaria Ministry of Finance		17,233	BGN		20
GS	BG2040003217	Republic Bulgaria Ministry of Finance		-	BGN		-
GS	BG2040104213	Republic Bulgaria Ministry of Finance		-	BGN		-
GS	XS0145623624	Republic Bulgaria Ministry of Finance	800	800	USD	1	1
GS	BG2040005212	Republic Bulgaria Ministry of Finance	60,000	325,622	BGN	59	335
GS	BG2030105113	Republic Bulgaria Ministry of Finance	100,000	100,000	BGN	99	101
GS	BG2040006210	Republic Bulgaria Ministry of Finance	120,400	-	BGN	113	-
						<b>272</b>	<b>787</b>

**Bonds:**

In TBGN

Asset	Code	Name	Number 31.12.2006	Number 31.12.2005	Currency	Market	Market
						value 31.12.2006	value 31.12.2005
GS	BG2100027049	TB Bulgarian-American Credit Bank AD	60	-	EUR	119	-
GS	BG2100008031	TB Bulgarian Post Bank AD	-	20	EUR	-	40
GS	BG2100031058	St. Konstantin and Elena AD	-	380	EUR	-	743
GS	BG2100008056	Enemona AD	60	-	BGN	61	-
GS	BG2100003040	TB ProCredit Bank (Bulgaria) AD	60	-	EUR	118	-
GS	BG2100011050	Sofpharma AD	60	-	EUR	119	-
GS	BG2100022057	Finance Consulting 2002	53	-	BGN	109	-
						<b>526</b>	<b>783</b>

## SECURITIES, OWNED BY CLIENTS OF EURO-FINACE LTD.

## Structure

Asset	Currency	Number 31.12.2006	Number 31.12.2005	Market value 31.12.2006		Market value 31.12.2005	
				Total	Incl. held in Depository institution	Total	Incl. held in Depository institution
Акции/Shares/Assets	BGN	10,064,393	12,495,127	70,729	70,729	23,303	22,931
	EUR	1,504,811	655,237	822	822	195	95
	USD	373,324	297,000	66	66	58	
	GBP		34,790	2	2	2	2
			<b>11,942,528</b>	<b>13,482,154</b>	<b>71,619</b>	<b>71,619</b>	<b>23,558</b>
Shares of mutual funds	BGN	2,524,459	1,755,090	2,680	2,680	1,756	1,218
Compensatory instruments	BGN	3,843,397	2,782,057	4,300	4,300	2,303	2,303
Bonds	BGN	4,671	5,778	6,286	6,286	5,165	699
	EUR	4,915	543,432	12,195	12,195	8,812	805
	USD	0	170	0	0	285	285
			<b>9,586</b>	<b>549,380</b>	<b>18,481</b>	<b>18,481</b>	<b>14,262</b>
Other debt securities/ incl. GS on the Bulgarian market	BGN	14,673,748	15,624,310	15,064	15,064	16,695	484
	EUR	3,013,374	1,999,360	6,899	6,899	4,523	432
	USD	238,6120	227,674	377	377	376	312
			<b>20,073,242</b>	<b>17,851,345</b>	<b>22,340</b>	<b>22,340</b>	<b>21,594</b>
Other debt securities of developed capital markets by list confirmed by Deputy Chairman of CFS	EUR	1,295,021	1,478,000	7,207	7,207	3,792	45
	USD	174,000	87,200	298	298	155	155
		<b>1,469,021</b>	<b>1,565,200</b>	<b>7,505</b>	<b>7,505</b>	<b>3,947</b>	<b>200</b>
<b>Total</b>		<b>39,862,233</b>	<b>37,985,226</b>	<b>126,925</b>	<b>126,925</b>	<b>67,420</b>	<b>29,766</b>