Part Three
Financial Review

CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2006

With Independent Auditors' Report Thereon

KPMG

Independent Auditors' Report

To the General Assembly of
Center for the Study of Democracy

Sofia, 19 July 2007

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Center for the Study of Democracy, which comprise the balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects the financial position of the Center for the Study of Democracy 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.

KPMG Bulgaria

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia, Bulgaria

Consolidated income statement

For the year ended 31 December 2006

In BGN	Note	2006	2005
Revenue	2	1,940,312	3,200,670
Cost of sales	3	(1,806,475)	(2,990,013)
Gross profit		133,837	210,657
Other operating income		-	299
Administrative expenses	4	(174,138)	(189,493)
Impairment losses	5	-	(11,225)
Result from operating activities		(40,301)	10,238
Financial income		46,538	125,752
Financial expenses		(105,612)	(30,141)
Net financing costs	6	(59,074)	95,611
Profit before income tax		(99,375)	105,849
Income tax expense	7	(8,930)	(23,179)
Profit for the period		(108,305)	82,670

The consolidated income statement of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

19 July 2007

Vladimir Yordanov

Executive Director

Consolidated balance sheet

As at 31 December 2006

In BGN	**Note**	**2006**	**2005**
Assets			
Property, plant and equipment	8	1,671,124	1,657,616
Intangible assets	9	27,629	8,760
Deferred tax assets	10	4,470	8,432
Total non-current assets		1,703,223	1,674,808
Inventories		31,094	253
Trade and other receivables	11	387,313	541,539
Cash and cash equivalents	12	1,125,860	930,327
Deferred expenses	13	76,716	42,839
Assets classified as held for sale		-	205,423
Total current assets		1,620,983	1,720,381
Total assets		3,324,206	3,395,189
Equity		2,997,856	3,106,161
Liabilities			
Deferred tax liabilities	10	2,709	4,797
Total non-current liabilities		2,709	4,797
Trade and other payables	14	193,665	103,209
Deferred financing	15	99,080	113,364
Tax payables		30,896	67,658
Total current liabilities		323,641	284,231
Total liabilities		326,350	289,028
Total equity and liabilities		3,324,206	3,395,189

The consolidated balance sheet of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

19 July 2007

Vladimir Yordanov

Executive Director

Consolidated statement of changes in equity

For the year ended 31 December 2006

In BGN	**Retained earnings**
Balance as at 1 January 2005	3,023,491
Recognised profit for 2005	82,670
Balance as at 31 December 2005	3,106,161
Balance as at 1 January 2006	3,106,161
Recognised profit for 2006	(108,305)
Balance as at 31 December 2006	2,997,856

The consolidated statement of changes in equity of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

19 July 2007

Vladimir Yordanov

Executive Director

Consolidated statement of cash flows

For the year ended 31 December 2006

In BGN	Note	2006	2005
Cash flows from operating activities			
Cash receipts from customers / donors		2,058,894	1,657,511
Cash paid to suppliers and employees		(1,695,704)	(1,971,928)
VAT refunded / (paid)		(127,563)	(124,227)
Cash receipts / (payments) from other operating activities		(139,725)	73,252
Cash generated from operations		95,902	(365,392)
Interest received		13,847	-
Interest paid		(2,624)	(5,267)
Income taxes paid		(28,185)	(9,359)
Net cash from operating activities		78,940	(380,018)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		215,650	267,128
Proceeds from sale of equity investments		-	5,000
Acquisition of property, plant and equipment		(99,057)	(40,225)
Interest received		-	13,922
Net cash from investing activities		116,593	245,825
Net cash from financing activities		-	-
Net increase / (decrease) in cash and cash equivalents		195,533	(134,193)
Cash and cash equivalents at 1 January		930,327	1,064,520
Cash and cash equivalents at 31 December	12	1,125,860	930,327

The consolidated statement of cash flows of the Center for the Study of Democracy is to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 5 to 26.

19 July 2007

Vladimir Yordanov

Executive Director

Notes to the consolidated financial statements

Legal status

The Center for the Study of Democracy (the ”Organisation”) is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of the Organisation for the year ended 31 December 2006 comprise the Organisation and its subsidiaries, Vitosha Research EOOD and Project 1 EOOD (together referred to as the ”Group”).

Founded in late 1989, the Center for Study of Democracy (CSD) is an interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organisation fostering the reform process in Bulgaria through impact on policy and civil society. CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European Integration process;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and to serve as well as to monitor the institutional reform process in the country;
- to strengthen the institutional and management capacity of NGOs in Bulgaria, and reform the legal framework for their operation.

The Center for the Study of Democracy controls 100% of its subsidiaries Vitosha Research EOOD and Project 1 EOOD.

Vitosha Research EOOD, established in 2000, is specialised in wide range of research fields: social and economic policy; social assessment and evaluation studies; economic and political behaviour; political attitudes and value systems; market, media and audience research; advertising studies, and others.

Project 1 EOOD was established in 2003. Its main activity is purchase, sale and rent of real estate property, project management and others.

The consolidated financial statements were authorised for issue by the directors on 23 July 2007.

Significant accounting policies

(a) Statement of compliance

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) Commission.

IAS 8 "Accounting policies, changes in accounting estimates and errors" requires the Group to disclose the fact that it has not applied standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application. The Group has disclosed the effects from application of published IFRS that are not effective as at the balance sheet date but may have an effect on the Group's activities (see note 21).

(b) Basis of preparation

The consolidated financial statements are presented in BGN.

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

The preparation of the financial statements in compliance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimations and the basic assumptions are reviewed at each balance sheet date. The changes in estimates are accounted for in the period of the change or in the current period and in future periods when they are affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – Trade receivables;
- Note 13 – Deferred expenses,

as also the estimation of inventories.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Organisation. Control exists when the Organisation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The BNB official closing exchange rate of the USD as at 31 December 2006 is 1.48506 BGN/USD and as at 31 December 2005 is 1.6579. The average exchange rate for the year 2006 is 1.55944 BGN/USD. The official closing rate as at December 2006 of the EUR is 1.95583.

(e) Property, plant and equipment

(i) Initial recognition and subsequent measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 25 years
- plant and equipment 4 - 5 years
- fixtures and fittings 2 - 7 years
- vehicles 7 years

The residual value, if not insignificant, is reassessed annually.

(f) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(i) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software 4 - 5 years

(g) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

(ii) Held-to-maturity investments

If the Company has the positive intent and the ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment losses (see significant accounting policy (h)).

(iii) Available-for-sale financial assets

The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than the impairment losses (see significant accounting policy (h)), and foreign exchange gains and losses and available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

(iv) Investments at fair value through profit and loss

An investment is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designed at fair value through profit and loss if the Company manages such investments and makes purchase and sale decision based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and changes therein are recognised in profit or loss.

(g) Financial instruments (continued)

(v) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(vi) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vii) Trade and other receivables

Trade and other receivables are stated at their amortised cost less accumulated impairment losses (refer to accounting policy (h)). Short-term receivables are stated at nominal cost.

(viii) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

(ix) Trade and other payables

Trade and other payables are stated at their amortised cost. Payables with short-term maturity are stated at nominal cost.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for sale financial asset recognised previously in equity is transferred profit or loss.

(h) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories (see significant accounting policy (i)) and deferred tax assets (see significant accounting policy (l)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

(ii) Revenue from grants and contributions

Revenue is recognized in the income statement on the basis of completed stage as reported by the Center for the Study of Democracy to the commissioning bodies. Revenue is recognised as income for the period to match the related costs on a systematic basis. Project contracts are denominated in foreign currency, while the related expenses are incurred in BGN.

(j) Revenue (continued)

(ii) Revenue from grants and contributions (continued)

The revenue of the Center for the Study of Democracy consists of funds extended by international financing bodies for the completion of accepted projects. The amounts are carried in the balance sheet as deferred revenue at their historic values. Every project is commenced with a signing of a contract where the financing body determines the budget, payment instalments and the rates at which expenses incurred in BGN are to be translated into the respective foreign currency.

Reports are prepared as contracted with financing bodies. Respective amount of BGN expenses are translated at the specified rate and an expense report in foreign currency is produced. It is used to report on the progress of the project before the financing organisation. Frequency is determined in the contract for the project assignment.

(k) Expenses

(i) Finance income and expense

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest rate method.

Dividend income is recognised on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised on profit or loss using the effective interest method.

(l) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(l) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

CSD is a not-for-profit organization. No corporate income tax is levied for not-for-profit activities in accordance with current Bulgarian legislation.

(m) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the consolidated financial statements

Notes to the consolidated financial statements

(1) Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

The Group comprises the following main business segments:

- Non-profit activities. Provision of an enhanced institutional and policy capacity for a successful European Integration process; promotion of institutional reform and the practical implementation of democratic values in legal and economic practice; monitoring public attitudes and the institutional reform process in Bulgaria.

- Trading activities related to social and economic research, social assessment and evaluation studies;

- Trading activities related to purchase, sale and rent of real estate property and project management.

1. Segment reporting (continued)
Business segments

In BGN	Note	Non-profit activities 2006	Non-profit activities 2005	Trading activities related to social and economic research 2006	Trading activities related to social and economic research 2005	Trading activities related to real estate property 2006	Trading activities related to real estate property 2005	Eliminations 2006	Eliminations 2005	Consolidated 2006	Consolidated 2005
Revenue from:											
grants and contributions		1,122,647	1,157,370	-	-	-	-	-	-	1,122,647	1,157,370
sale of services		-	-	353,629	364,731	216,028	126,554	-	-	569,657	491,285
sale of property, plant and equipment		5,668	-	-	-	218,820	1,508,679	-	-	224,488	1,508,679
financing for fixed assets		23,520	43,336	-	-	-	-	-	-	23,520	43,336
Total revenue		1,151,835	1,200,706	353,629	364,731	434,848	1,635,233	-	-	1,940,312	3,200,670
Inter-segment revenue		-	-	9,632	-	62,730	50,350	(72,362)	(50,350)	-	-
Total revenue	**2**	1,151,835	1,200,706	363,261	364,731	497,578	1,685,583	(72,362)	(50,350)	1,940,312	3,200,670
Expenses on grants and contributions	**3,(a)**	(980,845)	(1,125,954)	-	-	-	-	-	-	(980,845)	(1,125,954)
Operating expenses related to trading activities	**3,(b)**	-	-	(351,328)	(317,906)	(474,302)	(1,546,153)	-	-	(825,630)	(1,864,059)
Inter – segment expenses		(72,362)	(50,350)	-	-	-	-	72,362	50,350	-	-
Cost of sales	**3**	(1,053,207)	(1,176,304)	(351,328)	(317,906)	(474,302)	(1,546,153)	72,362	50,350	(1,806,475)	(2,990,013)
Other income		-	299	-	-	-	-	-	-	-	299
Administrative expenses	**4**	(174,138)	(189,896)	-	-	-	-	-	403	(174,138)	(189,493)
Impairment losses		-	-	-	(11,225)	-	-	-	-	-	(11,225)
Gross profit		(75,510)	(165,195)	11,933	35,600	23,276	139,430	-	403	(40,301)	10,238
Net financing income/(costs)	**6**	(36,190)	114,231	(3,894)	1,261	(18,990)	(19,881)	-	-	(59,074)	95,611
Profit before tax		(111,700)	(50,964)	8,039	36,861	4,286	119,549	-	403	(99,375)	105,849
Income tax expense		-	-	(1,045)	(5,531)	6,689	(14,722)	(14,574)	(2,926)	(8,930)	(23,179)
Profit for the period		(111,700)	(50,964)	6,994	31,330	10,975	104,827	(14,574)	(2,523)	(108,305)	82,670
Total assets		2,816,104	2,950,414	348,963	243,939	1,893,670	1,955,834	(1,734,531)	(1,754,998)	3,324,206	3,395,189
Total liabilities		326,822	349,432	128,791	30,761	854,989	928,127	(984,252)	(1,019,292)	326,350	289,028
Cash flows from operating activities		137,758	(389,715)	(3,408)	24,968	(55,410)	(15,271)	-	-	78,940	(380,018)
Cash flows from investing activities		(42,149)	3,970	(20,170)	(7,094)	178,912	248,949	-	-	116,593	245,825
Cash flows from financing activities		-	230,000	-	-	-	(230,000)	-	-	-	-

Notes to the consolidated financial statements

2. Revenue

In BGN	**2006**	**2005**
Revenue from grants, contributions and projects		
US Agency for International Development/Consolidation of Anti-Corruption reforms in Bulgaria	535,628	-
Council of Europe – Information Centre on the Council of Europe	95,445	126,791
Border Justice	83,606	-
NATO's transformation - Facing the new security borders	70,000	-
British Embassy – Establishment of a National Crime Prevention Council	60,877	84,912
The role of the Judiciary in curbing corruption and organized crime in Bulgaria: reforms, challenges and perspectives in the context of EU accession	48,847	-
British Embassy – Establishment and Promotion of Specialised Healthcare Ombudsman in Bulgaria with the purpose of tackling corruption in the Healthcare Service	27,612	57,144
European Community – Regional Innovation Strategy	47,071	-
NATO transformation	24,376	-
IBRD - Global Development Learning Network	17,840	21,665
Enhancing Democratic Governance in Bulgaria: Setting up the National Legal Framework for Public-Privite Partnerships	17,599	-
UNDP – Gun Culture	14,893	16,054
Global Fix Management	12,000	-
The role of the Judiciary in curbing corruption and organized crime in Bulgaria: reforms, challenges and perspectives in the context of EU accession" - Austrian Embassy	11,132	-
Open Society Institute, New York – Ethnic Discrimination	10,213	29,224
Saferworld UK - Survey of the small arms and light weapons	861	14,785
USAID/DPK Consulting – *Coalition 2000* Anti-Corruption Program	-	157,125
British Embassy - Local Ombudsman: a new mechanism for human rights protection and good governance	-	77,699
European Community – Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	-	64,597
CIPE – Democratic Governance in Bulgaria – Using Public-Private Partnerships to Advance Economic Reforms	-	46,689
Norway Embassy - Security Perceptions and Doctrinal Approaches - Designing and Implementing Security Strategies	-	29,337
Japan Foundation - The Perspectives for Security and Stability in Southeast Europe	-	25,074
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	362,898
Other projects	44,647	43,376
	1,122,647	1,157,370
Revenue form sales of property, plant and equipment	224,488	1,508,679
Revenue from sales of services	569,657	491,285
Income from financing for fixed assets	23,520	43,336
	1,940,312	3,200,670

3. Cost of sales

In BGN	**2006**	**2005**
Net book value of property, plant and equipment sold	217,257	1,343,571
Hired services	1,117,865	989,077
Salaries and benefits	211,259	168,180
Depreciation	69,205	96,638
Supplies and consumables	51,132	42,127
Other expenses	139,757	350,420
	1,806,475	2,990,013

a) Expenses on grants, contributions and projects

In BGN	**2006**	**2005**
Net book value of property, plant and equipment sold	5,654	-
Hired services	673,610	583,774
Salaries and benefits	119,112	128,379
Depreciation	21,831	43,336
Supplies and consumables	37,209	34,051
Other expenses	123,429	336,414
	980,845	1,125,954

b) Expenses related to trading activities

In BGN	**2006**	**2005**
Net book value of property, plant and equipment sold	211,603	1,343,571
Hired services	444,255	405,303
Salaries and benefits	92,147	39,801
Depreciation	47,374	53,302
Supplies and consumables	13,923	8,076
Other expenses	16,328	14,006
	825,630	1,864,059

4. Administrative expenses

In BGN	2006	2005
Hired services	147,994	153,668
Salaries and benefits	3,557	5,738
Depreciation	12,495	18,812
Supplies and consumables	5,929	7,563
Other expenses	4,163	3,712
	174,138	189,493

5. Impairment losses

In BGN	2006	2005
Impairment losses on trade receivables	-	11,225
	-	11,225

6. Net financing costs

In BGN	2006	2005
Interest income	13,289	14,749
Interest expense	-	(839)
Foreign exchange gains	33,249	111,003
Foreign exchange losses	(102,591)	(23,439)
Other financial expenses	(3,021)	(5,863)
	(59,074)	95,611

7. Income tax expense

Recognised in the income statement

In BGN	2006	2005
Current tax expense		
Corporate tax	(7,056)	(23,114)
Deferred tax expense		
Origination and reversal of temporary tax differences	(993)	(65)
Reduction in tax rate	(881)	-
	(1,874)	(65)
Total income tax equipment	(8,930)	(23,179)

8. Property, plant and equipment

In BGN	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Other assets	Assets under construction	Total
Cost							
Balance at 1 January 2005	1,571,765	207,427	228,056	95,222	2,304	347,133	2,451,907
Acquisitions	1,287,056	16,265	-	6,991	-	-	1,310,312
Disposals	(1,392,705)	-	-	(6,375)	-	-	(1,399,080)
Transfers to assets held for sale	(205,423)	-	-	-	-	-	(205,423)
Balance at 31 December 2005	1,260,693	223,692	228,056	95,838	2,304	347,133	2,157,716
Balance at 1 January 2006	1,260,693	223,692	228,056	95,838	2,304	347,133	2,157,716
Acquisitions	6,301	29,938	55,140	5,394	719	-	97,492
Disposals	-	(106,574)	(17,334)	(2,108)	-	-	(126,016)
Balance at 31 December 2006	1,266,994	147,056	265,862	99,124	3,023	347,133	2,129,192
Depreciation and impairment losses							
Balance at 1 January 2005	54,749	140,158	164,923	71,588	547	11,210	443,175
Depreciation charge for the year	41,256	44,170	20,477	7,135	346	-	113,384
Disposals	(56,220)	-	-	(239)	-	-	(56,459)
Balance at 31 December 2005	39,785	184,328	185,400	78,484	893	11,210	500,100
Balance at 1 January 2006	39,785	184,328	185,400	78,484	893	11,210	500,100
Depreciation charge for the year	28,317	26,786	15,896	6,963	382	-	78,344
Disposals	-	(106,574)	(11,694)	(2,108)	-	-	(120,376)
Balance at 31 December 2006	68,102	104,540	189,602	83,339	1,275	11,210	458,068
Carrying amount							
At 1 January 2005	1,550,690	30,338	63,133	26,892	1,757	335,923	2,008,733
At 31 December 2005	1,220,908	39,364	42,656	17,354	1,411	335,923	1,657,616
At 1 January 2006	1,220,908	39,364	42,656	17,354	1,411	335,923	1,657,616
At 31 December 2006	1,198,892	42,561	76,260	15,785	1,748	335,923	1,671,124

9. Intangible assets

In BGN	**Software**	**Patents and licenses**	**Total**
Cost			
Balance at 1 January 2005	15,012	412	15,424
Acquisitions	7,490	-	7,490
Balance at 31 December 2005	22,502	412	22,914
Balance at 1 January 2006	22,502	412	22,914
Acquisitions	22,224	-	22,224
Balance at 31 December 2006	44,726	412	45,138
Amortisation and impairment losses			
Balance at 1 January 2005	11,676	412	12,088
Amortisation charge for the year	2,066	-	2,066
Balance at 31 December 2005	13,742	412	14,154
Balance at 1 January 2006	13,481	412	14,154
Amortisation charge for the year	3,355	-	3,355
Balance at 31 December 2006	17,097	412	17,509
Carrying amount			
At 1 January 2005	3,336	-	3,336
At 31 December 2005	8,760	-	8,760
At 1 January 2006	8,760	-	8,760
At 31 December 2006	27,629	-	27,629

10. Deferred tax assets and liabilities

The recognised tax assets and liabilities as at 31 December 2006 and 31 December 2005 are attributable to the following balance sheet items:

		31 December 2006		**31 December 2005**	**31 December 2006**	**31 December 2005**
In BGN	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Net amount**	**Net amount**
Property, plant and equipment	-	(2,709)	-	(2,696)	(2,709)	(2,696)
Trade receivables	516	-	-	(1,403)	516	(1,403)
Deferred expenses	-	-	3,283	-	-	3,283
Trade payables	3,954	-	5,149	(698)	3,954	4,451
Net tax assets/(liabilities)	4,470	(2,709)	8,432	(4,797)	1,761	3,635

10. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

In BGN	**Balance as at 31 December 2005**	**Recognised in the income statement**	**Recognised in equity**	**Balance as at 31 December 2006**
Property, plant and equipment	(2,696)	(13)	-	(2,709)
Trade receivables	(1,403)	1,919	-	516
Deferred expenses	3,283	(3,283)	-	-
Trade payables	4,451	(497)	-	3,954
Deferred tax assets/(liabilities)	3,635	(1,874)	-	1,761

The tax rate used for calculation of the deferred tax for 2006 is the rate defined by the Corporate Income Tax Act, which is 10% in force from 1 January 2007. At 31 December 2005 the deferred tax assets and liabilities were calculated using the tax rate for 2006 of 15%.

11 Trade and other receivables

In BGN	**2006**	**2005**
Receivables on completed projects	224,045	447,767
Trade receivables	134,692	72,414
Impairment losses	(11,225)	(11,225)
Tax receivables	10,014	5,543
Other	29,787	27,040
	387,313	541,539

12. Cash and cash equivalents

In BGN	**2006**	**2005**
Current bank accounts in local currency	149,010	190,022
Current bank accounts in foreign currency	350,735	180,226
Deposits in foreign currency	543,509	427,050
At bank	1,043,254	797,298
In local currency	76,609	129,229
In foreign currency	5,997	3,800
In hand	82,606	133,029
	1,125,860	930,327

13. Deferred expenses

In BGN	**2006**	**2005**
European Community – Regional Innovation Strategy	24,050	28,736
Global Governance, Regionalisation and Regulation: The Role of the EU - GARNET	8,290	-
Research and analytical report on Organized Crime in Bulgaria	2,589	-
Open Society – Ethnic Discrimination	-	7,306
UNDP – Gun Culture	-	4,019
	34,929	40,061
Insurances and others related to trading activities	41,787	2,778
	76,716	42,839

14. Trade and other payables

In BGN	**2006**	**2005**
Trade payables	114,178	49,854
Salaries, benefits and social security payable	28,304	42,334
Other payables	51,183	11,021
	193,665	103,209

15. Deferred financing

In BGN	**2006**	**2005**
Global Governance, Regionalisation and Regulation: The Role of the EU - GARNET	33,077	34,114
Publication of the CSD comments on the Law on Electronic Registry	9,780	-
British Embassy – Establishment of a National Crime Prevention Council	8,162	-
Research and analytical report on Organized Crime in Bulgaria	1,840	-
Border Justice	32	-
European Community – Regional Innovation Strategy	-	32,453
Open Society – Ethnic Discrimination	-	2,262
Deferred financing for project activities	52,891	68,829
Deferred financing for fixed assets	46,189	44,535
	99,080	113,364

16. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

Foreign exchange risk

The Group is exposed to foreign currency risk on grants received from donors that are denominated in a currency other than BGN. The currencies giving rise to this risk are primarily U.S. Dollars and Pounds Sterling.

In respect of monetary assets and liabilities held in currencies other than BGN, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Interest rate risk

During the reporting period the Group has not been exposed to interest rate risk.

Effective interest rates and re-pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date.

In thousands of BGN	**Note**	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Cash at bank	**12**	0,1 -0,2%	499,745	499,745	-	-	-
Deposits at bank in foreign currency	**12**	2.5-3%	543,509	543,509	-	-	-
			1,043,254	1,043,254		-	-

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on a monthly basis. Credit evaluations are performed on all donors requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk.

17. Related parties

During the year, the following transactions have taken place:

Related party	Transaction	January - December		31 December		31 December	
		2006	2005	2006	2005	2006	2005
		Transactions value		*Receivables balance outstanding*		*Payables balance outstanding*	
IR Communications EOOD	Market research with regard to IT communications	90,000	-	-	-	-	-
	Market research	3,000	-	-	-	-	-
ARC Consulting EOOD	Loan granted (principal)	8,500	-	-	-	-	-
	Loan granted (interest)	243	-	-	-	-	-
Applied Research & Communications Fund	Coalition 2000 partnership – USD 46,338	11,581	72,974	-	-	-	11,581
	Market research	31,684	-	-	-	-	-
	Rent contract	46,383	-	-	-	-	-

Bulgaria Online EOOD was a wholly-owned subsidiary of the Applied Research & Communications Fund until 17 November 2006 when it was sold to entities not related to the Group. The following transactions with Bulgaria Online EOOD have taken place during the year:

Related party	Transaction	January - December		31 December		31 December	
		2006	2005	2006	2005	2006	2005
		Transactions value		*Receivables balance outstanding*		*Payables balance outstanding*	
Bulgaria Online EOOD	Rent contract	11,350	-	-	-	-	-
Bulgaria Online EOOD	Market research	12,240	-	-	-	-	-
Bulgaria Online EOOD	Purchase-sale of a cargo vehicle	19,872	-	-	-	-	-
Bulgaria Online EOOD	Internet service provision	-	8,461	-	-	-	6,140
		234,854	81,435	-	-	-	17,721

17. Related parties (continued)

Transactions with directors and executive officers

The Group is a related party with its executive director and management board.

The total amount of the paid remunerations, honoraria and social securities, included in salaries and benefits and expenses for hired services is as follows:

In BGN	**2006**	**2005**
Management Board	201,746	93,164

18. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

19. Subsequent events

There are no significant subsequent events that would require adjustment or disclosure in the consolidated financial statements.

20. Application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may affect the Group activities

- IFRS 7 ”Financial Instruments: Disclosures” and amendment to IAS 1 ”Presentation of Financial Statements”: require detailed disclosure of the significance of financial instruments for an entity’s financial position, as well as qualitative and quantitative information about exposure to risk. The new IRFS 7 and the amended IAS 1 will be valid for the period beginning on 1 January 2007 and will require additional disclosures related to financial instruments and equity.

- IFRS 8 Operating Segments (effective from 1 January 2007). The standard requires disclosure of segments based on components of the business, which the managements evaluates when taking operational decisions. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group does not expect the IFRS 8 to have an effect on the financial statements.

- Change in IAS 1 Presentation of financial statements (effective from 1 January 2007). As an additional change, due to IFRS 7 (see above), IAS 1 will require more comprehensive disclosure of entity’s capital. This change will require more comprehensive disclosure of the equity structure of an entity.

20. Application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may affect the Group activities (continued)

- IFRIC 7 ”Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” – will become mandatory for the Group’s financial statements for 2007. The Group does not expect the interpretation to have an effect on the financial statements

- IFRIC 8 IFRS 2 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The Group does not expect IFRIC 8 to have an effect on the financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The interpretation concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group does not expect IFRIC 9 to have an effect on the financial statements.

- IFRIC 10 ”Interim Financial Reporting and Impairment” (effective from 1 November 2006) - prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. The Group does not expect the interpretation to have an effect on the financial statements.

- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation requires share-based payment, for which an entity receives goods or services for its own equity instruments, to be accounted for as a share-based payment, based on shares, settled in shares, regardless of the method the equity instruments are received. The interpretation directs to whether share-based payments, where to suppliers of goods or services are issued equity instruments of the parent company, these should be accounted in the financial statements as settled in cash or in shares. The Group does not expect IFRIC 11 to have an effect on the financial statements.

- IFRIC 12 Service concession agreement (effective for annual periods beginning on or after 1 January 2008). The interpretation clarifies to the private sector companies certain aspects of disclosure and valuation issues, arising from the accounting for the public-private concession agreement. The Group does not expect IFRIC 12 to have an effect on the financial statements.