



Center for the Study of Democracy

Consolidated Financial Statements
for the year ended 31 December 2007
With Independent Auditors' Report Thereon



INDEPENDENT AUDITOR'S REPORT

To the General Assembly of
Center for the Study of Democracy

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Center for the Study of Democracy, which comprise the consolidated balance sheet as at 31 December 2007, 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 as adopted in EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

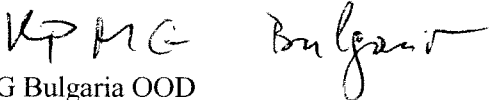
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated 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 give a true and fair view of the financial position of Center for the Study of Democracy as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in EU.

Sofia, 1 August 2008


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

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Consolidated income statement

For the year ended 31 December 2007

<i>In BGN</i>	Note	2007	2006
Revenue	6	1,600,608	1,940,312
Cost of sales	7	<u>(1,563,456)</u>	<u>(1,806,475)</u>
Gross profit		37,152	133,837
Other operating income	14	450,375	-
Administrative expenses	8	(153,466)	(174,138)
Impairment losses	9	<u>(12,672)</u>	<u>-</u>
Results from operating activities		321,389	(40,301)
Finance income		319,989	13,289
Finance expenses		<u>(89,319)</u>	<u>(72,363)</u>
Net finance income	10	230,670	(59,074)
Profit before income tax		552,059	(99,375)
Income tax expense	11	794	(8,930)
Profit for the period		<u>552,853</u>	<u>(108,305)</u>

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 6 to 27.



31 July 2008


Vladimir Yordanov

Executive Director

Center for the Study of Democracy*Consolidated Financial Statements for the year ended 31 December 2007***Consolidated balance sheet****As at 31 December 2007**

<i>In BGN</i>	Note	2007	2006
Property, plant and equipment	12	1,874,677	1,671,124
Intangible assets	13	24,440	27,629
Deferred tax assets	15	6,865	4,470
Total non-current assets		<u>1,905,982</u>	<u>1,703,223</u>
Inventories		2,327	31,094
Trade and other receivables	16	180,878	387,313
Cash and cash equivalents	17	288,755	1,125,860
Financial assets designated at fair value through profit or loss	14	1,359,233	-
Deferred expenses	18	4,055	76,716
Total current assets		<u>1,835,248</u>	<u>1,620,983</u>
Total assets		<u><u>3,741,230</u></u>	<u><u>3,324,206</u></u>
Equity		3,550,709	2,997,856
Liabilities			
Deferred tax liabilities	15	3,313	2,709
Total non-current liabilities		<u>3,313</u>	<u>2,709</u>
Trade and other payables	19	57,635	193,665
Deferred financing	20	126,247	99,080
Tax payables		3,326	30,896
Total current liabilities		<u>187,208</u>	<u>323,641</u>
Total liabilities		<u>190,521</u>	<u>326,350</u>
Total equity and liabilities		<u><u>3,741,230</u></u>	<u><u>3,324,206</u></u>

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 6 to 27.



31 July 2008

Vladimir Yordanov

Executive Director

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Consolidated statement of changes in equity

For the year ended 31 December 2007

<i>In BGN</i>	Retained earnings
Balance as at 1 January 2006	3,106,161
Recognised loss for 2006	(108,305)
Balance as at 31 December 2006	<u>2,997,856</u>
Balance as at 1 January 2007	2,997,856
Recognised profit for 2007	552,853
Balance as at 31 December 2007	<u>3,550,709</u>

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 6 to 27.



31 July 2008

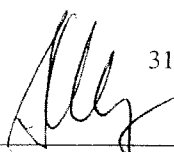
Vladimir Yordanov

Executive Director

Center for the Study of Democracy*Consolidated Financial Statements for the year ended 31 December 2007***Consolidated statement of cash flows****For the year ended 31 December 2007**

	Note	2007	2006
Cash flows from operating activities			
Cash receipts from donors		899,263	1,011,206
Cash receipts from customers		975,885	1,047,688
Cash paid to suppliers		(826,357)	(755,505)
Cash receipts from / (payments) to employees		(846,257)	(940,199)
VAT refunded / (paid)		(38,492)	(127,563)
Net foreign exchange gain / (loss)		(5,408)	(68,899)
Cash receipts / (payments) from other operating activities		(29,944)	(70,826)
Cash generated from operations		<u>128,690</u>	<u>95,902</u>
Interest received		1,259	13,847
Income taxes paid		(8,074)	(28,185)
Net cash from operating activities		<u>121,875</u>	<u>81,564</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		600	215,650
Acquisition of property, plant and equipment		(287,454)	(99,057)
Net cash from investing activities		<u>(286,854)</u>	<u>116,593</u>
Cash flows from financing activities			
Interest paid		(2,126)	(2,624)
Acquisition of financial assets		(670,000)	-
Net cash from financing activities		<u>(672,126)</u>	<u>(2,624)</u>
Net increase / (decrease) in cash and cash equivalents		(837,105)	195,533
Cash and cash equivalents at 1 January		<u>1,125,860</u>	<u>930,327</u>
Cash and cash equivalents at 31 December	17	<u>288,755</u>	<u>1,125,860</u>

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 6 to 27.

 31 July 2008

Vladimir Yordanov

Executive Director

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

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Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

1. Reporting entity

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 2007 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.

2. Basis for preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Commission.

The consolidated financial statements were authorised for issue by the Management Board on 31 July 2008.

(b) Basis of measurement

The consolidated financial statements have been prepared in accordance with the historical cost principle, except for financial assets at fair value through profit or loss, which are stated at fair value.

(c) Functional and presentation currency

The consolidated financial statements have been prepared in Bulgarian leva (BGN), which is the Group’s functional currency.

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

2. Basis for preparation (continued)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In particular, information about significant areas of estimate of uncertainties and critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the financial statements are described in the following notes:

- Note 16 – Trade and other receivables;
- Note 18 – Deferred expenses;

3. Significant accounting policies

(a) Comparative information

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

When the presentation or classification of items in the financial statements was amended, comparative amounts have been reclassified, to ensure comparability with the current period. Such reclassifications have resulted from the more detailed presentation of balance sheet and income statement items in the notes to the financial statements.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are the entities controlled by the Company (the Parent Company). Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Group at the exchange rates stated by the central bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate stated by the central bank at that date.

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(c) Foreign currency transactions (continued)

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

(d) 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 plus, for investments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group 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 Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Held-to-maturity investments

If the Group 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.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to the initial recognition, they are measured at fair value and changes therein, other than the impairment losses (see note 3,(f)), 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.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Non-derivative financial instruments

Other

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

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(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 is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(ii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- software 4 - 5 years

(g) 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.

(h) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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 to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, 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 goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. 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. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Center for the Study of Democracy

Consolidated Financial Statements for the year ended 31 December 2007

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

(k) 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

Grants from international financing bodies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(l) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), 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, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group'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, 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 in profit or loss¹ using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss 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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies (continued)

(m) Income tax (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(n) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined 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. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(o) New standards and interpretations not yet adopted

- IFRS 8 "*Operating Segments*" introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted (continued)

- Revised IAS 23 “*Borrowing Costs*” removes the option to expense borrowing costs and requires that an entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group’s 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.
- 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, 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.
- 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 because there are no concession agreements.
- IFRIC 13 “*Customer Loyalty Programs*” concerns the reporting of entities which operate or participate in customer loyalty programs. It is related to customer loyalty programs, which allow customers to exchange accumulated loyalty award credits for goods and services for free or at a lower cost. IFRIC 13 is effective as of 1 July 2008 and is not considered relevant to the activities of the Group.
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions* (effective for annual periods beginning on or after 1 January 2008). The Group does not expect IFRIC 14 to have an effect on the financial statements.
- Revised IFRS 3 “*Business combinations*” and supplementary IAS 27 *Consolidated and separate financial statements*. All transferred positions of the acquiring party are presented at fair value.

The major changes as compared to IFRS 3 (2004) and IAS 27 (2003) are the following:

- Only mutual entities and to business combinations achieved by contract alone;
- The definition of business combination is changed and is focused on control;
- The acquiring party may choose to assess the non-controlling participation at fair value as at acquisition date or proportionally to the participation in the fair value of the identifiable assets and liabilities of the acquired party on transaction by transaction basis;
- Transaction costs incurred by the acquiring party in relation to the business combinations are not part of the business combination transaction;
- When acquisition is executed through the purchase of shares (acquisition step), the identifiable assets and liabilities are recorded at fair value when control is acquired; income and losses are recognized in the income statement as the difference between the fair value and the carrying amount of the previously owned shares in the acquired party. The amount of the previously owned shares in the acquired party which was directly recorded in equity (i.e. investment classified as available-for-sale) is reclassified and includes recalculation of income and losses recognized in the income statement;
- Acquisition of additional non-controlling shares in the equity after business combination is recorded as transaction of the Company’s capital;

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3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted (continued)

- Sale of equity share, while control is preserved, is recorded as transaction of the Company's capital;
- Transactions resulting in loss of control of the company are recorded as income or loss on the income statement. Income or loss include revaluation to the fair value of the accumulated investment shares;
- New disclosures are required.

IFRS 3 (2008) is effective for periods beginning on or after 1 July 2009 and earlier application is permitted. Nevertheless, IFRS 3 (2008) cannot be applied earlier than the periods beginning on or after 30 June 2007. If the Company applies the standard earlier, it also has to apply IAS 27 (2008) and to disclose this fact.

The carrying amount of assets and liabilities resulting from business combinations before the application of IFRS (2008) are not corrected. The Group has not determined yet the potential effect of the application of IFRS 3 and IAS 27.

4. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

The Management has the overall responsibility for the establishment and supervision of the Group's risk management.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk arises principally from the Group's receivables from customers and investment securities. 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 and debtors requiring credit over a certain amount.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

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4. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group is exposed to currency risk on sales that are denominated in a currency other than the its functional currency. The Group enters contracts in foreign currencies related to consulting services, social and market research. These purchases are primarily denominated in EUR. The currency risk associated with these purchases is minimal as the exchange rate with the EUR is fixed by the BNB.

Capital management

The management policy is to maintain a strong capital base so as to maintain customer, creditor and market confidence and to sustain future development of the business.

The Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group aims to achieve return on equity around 10 %.

There have been no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

5. Segment reporting

Business segments

The Group comprises the following major 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.

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Segment reporting (continued)

	Note	Non-profit activities		Trading activities related to social and economic research		Trading activities related to real estate property		Eliminations		Consolidated	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<i>In BGN</i>											
Revenue from:											
grants and contributions		885,587	1,122,647	-	-	-	-	-	-	885,587	1,122,647
sale of services		-	-	604,051	353,629	83,509	216,028	-	-	687,560	569,657
sale of property, plant and equipment		600	5,668	-	-	-	218,820	-	-	600	224,488
financing for fixed assets		26,861	23,520	-	-	-	-	-	-	26,861	23,520
Total revenue	6	913,048	1,151,835	604,051	353,629	83,509	434,848	-	-	1,600,608	1,940,312
Inter-segment revenue		-	-	-	9,632	71,576	62,730	(71,576)	(72,362)	-	-
Total revenue		913,048	1,151,835	604,051	363,261	155,085	497,578	(71,576)	(72,362)	1,600,608	1,940,312
Expenses on grants and contributions	7(a)	(762,452)	(980,845)	-	-	-	-	-	-	(762,452)	(980,845)
Operating expenses related to trading activities	7(b)	-	-	(604,041)	(351,328)	(196,963)	(474,302)	-	-	(801,004)	(825,630)
Inter – segment expenses		(71,576)	(72,362)	-	-	-	-	71,576	72,362	-	-
Cost of sales	7	(834,028)	(1,053,207)	(604,041)	(351,328)	(196,963)	(474,302)	71,576	72,362	(1,563,456)	(1,806,475)
Other income	14	450,375	-	-	-	-	-	-	-	450,375	-
Administrative expenses	8	(153,466)	(174,138)	-	-	-	-	-	-	(153,466)	(174,138)
Impairment losses	9	(5,603)	-	(7,069)	-	-	-	-	-	(12,672)	-
Gross profit		370,326	(75,510)	(7,059)	11,933	(41,878)	23,276	-	-	321,389	(40,301)
Net financing income/(costs)	10	81,421	(36,190)	(4,158)	(3,894)	153,399	(18,990)	-	-	230,670	(59,074)
Profit before tax		451,755	(111,700)	(11,217)	8,039	111,521	4,286	-	-	552,059	(99,375)
Income tax expense	11	-	-	1,161	(1,045)	(15,768)	6,689	15,401	(14,574)	794	(8,930)
Profit for the period		451,755	(111,700)	(10,056)	6,994	95,753	10,975	15,401	(14,574)	552,853	(108,305)
Total assets		3,405,625	2,816,104	242,515	348,963	1,833,054	1,893,670	(1,739,964)	(1,734,531)	3,741,230	3,324,206
Total liabilities		464,590	326,822	32,398	128,791	698,620	854,989	(1,005,087)	(984,252)	190,521	326,350
Cash flows from operating activities		201,846	137,758	(12,081)	(3,408)	(67,890)	(55,410)	-	-	121,875	78,940
Cash flows from investing activities		(26,993)	(42,149)	(30,409)	(20,170)	(229,452)	178,912	-	-	(286,854)	116,593
Cash flows from financing activities		(730,167)	-	(700)	-	58,741	-	-	-	(672,126)	-

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6. Revenue*In BGN***2007****2006****Revenue from grants, contributions and projects**

US Agency for International Development / Consolidation of Anti-Corruption reforms in Bulgaria	386,388	535,628
Border Justice	154,808	83,606
European Community – Regional Innovation Strategy	110,598	47,071
STEPSS – Strategies for Effective Police Stop and Search	89,863	-
National Legal Framework for Public-Private Partnerships	42,600	17,599
Crime Repression Costs in Context	26,507	-
Global Governance, Regionalisation and Regulation: The Role of the EU	20,282	(1,037)
IBRD – Global Development Learning Network	19,903	17,840
British Embassy – Establishment of a National Crime Prevention Council	8,162	60,877
Commission des Communautés Europeennes – The role of the Judiciary in curbing corruption and organized crime in Bulgaria: reforms, challenges and perspectives in the context of EU accession	3,536	48,847
Council of Europe – Information Center on the Council of Europe Bulgarian Telecommunications Company (BTC) – International Conference “NATO’s transformation – Facing the new security borders”	-	95,445
British Embassy – Establishment and Promotion of Specialised Healthcare Ombudsman in Bulgaria with the purpose of tackling corruption in the Healthcare Service	-	70,000
Secretariat Intern OTAN – International Conference “NATO’s transformation – Facing the new security borders”	-	27,612
United Nations Development Programme (UNDP) – Gun Culture	-	24,376
Global Fix Management	-	14,893
Austrian Embassy – The role of the Judiciary in curbing corruption and organized crime in Bulgaria: reforms, challenges and perspectives in the context of EU accession	-	12,000
Open Society Institute, New York – Ethnic Discrimination	-	11,132
Saferworld UK – Survey of the small arms and light weapons	-	10,213
Other projects	-	861
	22,940	45,684
	<u>885,587</u>	<u>1,122,647</u>
Revenue from sales of services	687,560	569,657
Revenue form sales of property, plant and equipment	600	224,488
Income from financing for fixed assets	26,861	23,520
	<u>1,600,608</u>	<u>1,940,312</u>

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Notes to the consolidated financial statements

7. Cost of sales

<i>In BGN</i>	2007	2006
Net book value of property, plant and equipment sold	-	217,257
Hired services	1,004,926	1,117,865
Salaries and benefits	244,866	211,259
Depreciation	79,873	69,205
Supplies and consumables	65,386	51,132
Other expenses	168,405	139,757
	<u>1,563,456</u>	<u>1,806,475</u>

a) Expenses on grants, contributions and projects

<i>In BGN</i>	2007	2006
Net book value of property, plant and equipment sold	-	5,654
Hired services	453,875	673,610
Salaries and benefits	118,600	119,112
Depreciation	24,198	21,831
Supplies and consumables	34,175	37,209
Other expenses	131,604	123,429
	<u>762,452</u>	<u>980,845</u>

b) Expenses related to trading activities

<i>In BGN</i>	2007	2006
Net book value of property, plant and equipment sold	-	211,603
Hired services	551,051	444,255
Salaries and benefits	126,266	92,147
Depreciation	55,675	47,374
Supplies and consumables	31,211	13,923
Other expenses	36,801	16,328
	<u>801,004</u>	<u>825,630</u>

8. Administrative expenses

<i>In BGN</i>	2007	2006
Hired services	131,114	147,994
Salaries and benefits	4,217	3,557
Depreciation	12,256	12,495
Supplies and consumables	3,258	5,929
Other expenses	2,621	4,163
	<u>153,466</u>	<u>174,138</u>

9. Impairment losses

<i>In BGN</i>	2007	2006
Impairment losses on trade receivables	12,672	-
	<u>12,672</u>	<u>-</u>

Center for the Study of Democracy*Consolidated Financial Statements for the year ended 31 December 2007**Notes to the consolidated financial statements***10. Finance income and expense**

<i>In BGN</i>	2007	2006
Interest income	80,757	13,289
Net change in fair value of financial assets at fair value	239,232	-
	<u>319,989</u>	<u>13,289</u>
Interest expense	(79,522)	-
Net foreign exchange loss	(7,052)	(69,342)
Other finance expenses	(2,745)	(3,021)
	<u>(89,319)</u>	<u>(72,363)</u>
	<u>230,670</u>	<u>(59,074)</u>

11. Income tax expense**Recognised in the income statement**

<i>In BGN</i>	2007	2006
<i>Current tax expense</i>		
Corporate tax	997	7,056
<i>Deferred tax expense</i>		
Origination and reversal of temporary tax differences	(1,791)	993
Reduction in tax rate	-	881
	<u>(1,791)</u>	<u>1,874</u>
Total income tax expenses	<u>(794)</u>	<u>8,930</u>

Current income tax expense includes the accrual of profit tax at the amount of 10% (2006: 15%) applied to the current financial result after tax adjustments.

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12. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures and fittings	Other assets	Assets under construction	Total
Cost							
Balance at 1 January 2006	1,260,693	223,692	228,056	95,838	2,304	347,133	2,157,716
Additions	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
Balance at 1 January 2007	1,266,994	147,056	265,862	99,124	3,023	347,133	2,129,192
Additions	-	53,543	-	6,750	-	228,800	289,093
Disposals	-	(33,295)	(1,597)	-	-	-	(34,892)
Balance at 31 December 2007	1,266,994	167,304	264,265	105,874	3,023	575,933	2,383,393
Depreciation and impairment losses							
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
Balance at 1 January 2007	68,102	104,540	189,602	83,339	1,275	11,210	458,068
Depreciation charge for the year	28,558	29,157	19,858	7,514	453	-	85,540
Disposals	-	(33,295)	(1,597)	-	-	-	(34,892)
Balance at 31 December 2007	96,660	100,402	207,863	90,853	1,728	11,210	508,716
Carrying amount							
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	42,516	76,260	15,785	1,748	335,923	1,671,124
At 1 January 2007	1,198,892	42,516	76,260	15,785	1,748	335,923	1,671,124
At 31 December 2007	1,170,334	66,902	56,402	15,021	1,295	564,723	1,874,677

13. Intangible assets

<i>In BGN</i>	Software
<i>Cost</i>	
Balance at 1 January 2006	22,914
Additions	22,224
Disposals	-
Balance at 31 December 2006	<u>45,138</u>
Balance at 1 January 2007	45,138
Additions	3,400
Disposals	-
Balance at 31 December 2007	<u>48,538</u>
<i>Amortisation and impairment losses</i>	
Balance at 1 January 2006	14,154
Amortisation charge for the year	3,355
Disposals	-
Balance at 31 December 2006	<u>17,509</u>
Balance at 1 January 2007	17,509
Amortisation charge for the year	6,589
Disposals	-
Balance at 31 December 2007	<u>24,098</u>
<i>Carrying amount</i>	
At 1 January 2006	<u>8,760</u>
At 31 December 2006	<u>27,629</u>
At 1 January 2007	<u>27,629</u>
At 31 December 2007	<u>24,440</u>

14. Financial assets designated at fair value through profit or loss

<i>In BGN</i>	2007	2006
<i>Current investments</i>		
Financial assets designated at fair value through profit or loss	<u>1,359,233</u>	<u>-</u>

The financial assets designated at fair value through profit or loss comprise 907,425.5034 equity shares in the Mutual Fund - Raiffeisen (Bulgaria) Balanced Fund:

- On 10 January 2007 IR Communications transferred 377,000 equity shares of the Mutual Fund to the Group at fair value of total BGN 450,000 as a donation.
- On 24 January 2007 the Group purchased additional 465,040.3851 equity shares in the Mutual Fund at fair value of total BGN 570,000.
- On 15 November 2007 the Group purchased additional 65,385.1183 equity shares in the Mutual Fund at fair value of total BGN 100,000.

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15. Deferred tax assets and liabilities

The recognised tax assets and liabilities are attributable to the following balance sheet items:

<i>In BGN</i>	31 December 2007		31 December 2006		31 December 2007	31 December 2006
	Assets	Liabilities	Assets	Liabilities	Net amount	Net amount
Property, plant and equipment	-	3,313	-	2,709	3,313	2,709
Inventories	(2,874)	-	-	-	(2,874)	-
Trade receivables	(1,830)	-	(516)	-	(1,830)	(516)
Trade payables	(2,161)	-	(3,954)	-	(2,161)	(3,954)
Net tax assets/(liabilities)	(6,865)	3,313	(4,470)	2,709	(3,552)	(1,761)

Movement in deferred tax during the year

<i>In BGN</i>	Balance as at 31 December 2006	Recognised in the income statement	Recognised in equity	Balance as at 31 December 2007
Property, plant and equipment	2,709	604	-	3,313
Inventories	-	(2,874)	-	(2,874)
Trade receivables	(516)	(1,314)	-	(1,830)
Trade payables	(3,954)	1,793	-	(2,161)
Deferred tax assets/(liabilities)	(1,761)	(1,791)	-	(3,552)

The applicable deferred tax rate for 2007 represents the statutory corporate income tax rate for 2008, which is 10%. The applicable deferred tax rate for 2006 represents the statutory corporate income tax rate for 2007, which is 10%.

16. Trade and other receivables

<i>In BGN</i>	2007	2006
Completed projects	57,980	224,045
Impairment losses	(5,603)	-
Trade receivables	79,307	134,692
Impairment losses	(11,225)	(11,225)
Tax receivables	36,512	10,014
Other	30,976	29,787
Impairment losses	(7,069)	-
	<u>180,878</u>	<u>387,313</u>

17. Cash and cash equivalents

<i>In BGN</i>	2007	2006
In local currency	19,273	149,010
In foreign currency	197,704	350,735
Deposits in foreign currency	-	543,509
Cash at bank	<u>216,977</u>	<u>1,043,254</u>
In local currency	68,931	76,609
In foreign currency	2,847	5,997
Cash in hand	<u>71,778</u>	<u>82,606</u>
	<u>288,755</u>	<u>1,125,860</u>

Center for the Study of Democracy*Consolidated Financial Statements for the year ended 31 December 2007**Notes to the consolidated financial statements***18. Deferred expenses**

<i>In BGN</i>	2007	2006
European Community –Regional Innovation Strategy	-	24,050
Global Governance, Regionalisation and Regulation: The Role of the EU - GARNET	-	8,290
Research and analytical report on Organized Crime in Bulgaria	-	2,589
	<u>-</u>	<u>34,929</u>
Insurances and others related to trading activities	4,055	41,787
	<u>4,055</u>	<u>76,716</u>

Since revenue and expenses on projects are matched on an annual basis to conform with the accruals principle, deferred expenses consist of expenses incurred on projects or stage that have not been completed.

19. Trade and other payables

<i>In BGN</i>	2007	2006
Trade payables	41,994	114,178
Salaries, benefits and social security payable	8,381	28,304
Other payables	7,260	51,183
	<u>57,635</u>	<u>193,665</u>

20. Deferred financing

<i>In BGN</i>	2007	2006
Crime Repression Costs in Context	57,532	-
Global Governance, Regionalisation and Regulation: The Role of the EU – GARNET	12,795	33,077
Enhancing transparency and business integrity in Bulgaria	10,897	-
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
Deferred financing for project activities	81,224	52,891
Deferred financing for fixed assets	45,023	46,189
	<u>126,247</u>	<u>99,080</u>

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21. Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<i>In BGN</i>	Note	Carrying amount	
		2007	2006
Financial assets designated at fair value through profit or loss	14	1,359,233	-
Cash and cash equivalents	17	288,755	1,125,860
Trade and other receivables	16	144,366	377,277
		<u>1,792,354</u>	<u>1,503,137</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

<i>In BGN</i>	Note	Carrying amount	
		2007	2006
Domestic		87,434	156,822
Euro-zone countries		-	89,618
United Kingdom		25,507	27,712
Other European countries		31,425	44,441
United States		-	58,684
	16	<u>144,366</u>	<u>377,277</u>

Impairment losses

The change of impairment losses of trade and other receivables through the year is :

<i>In BGN</i>	Note	2007	2006
Impairment as of 1 January	16	11,225	11,225
Impairment of trade receivables during the year	16	5,603	-
Impairment of other receivables during the year	16	7,069	-
Impairment as of 31 December		<u>23,897</u>	<u>11,225</u>

The impairment of trade receivables as of 31 December 2007 includes impairment of receivables older than 360 days. Based on historical information the Group does not consider the impairment of receivables, which have occurred during the last 360 days necessary.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

31 December 2007

<i>In BGN</i>	Carrying amount	Contractual cash flows	1 year or less	1-5 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	49,254	(49,254)	(49,254)	-	-	-

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21. Financial instruments (continued)

Liquidity risk (continued)

31 December 2006

<i>In BGN</i>	Carrying amount	Contractual cash flows	1 year or less	1-5 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	165,361	(165,361)	(165,361)	-	-	-

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2007			31 December 2006		
	EUR	USD	GBP	EUR	USD	GBP
Cash and cash equivalents	78,227	35,719	-	139,320	422,711	-
Trade receivable	15,533	4,209	9,583	70,129	63,801	7,500
Trade payables	(610)	-	-	(610)	-	-
Gross credit risk exposure	93,150	39,928	9,583	208,839	486,512	7,500

<i>In BGN</i>	Average rate	
	2007	2006
USD 1	1.42937	1.55944
GBP 1	2.86006	2.86909

Sensitivity analysis

The Group operates under currency board. The Bulgarian Lev (BGN) is fixed to the Euro (EUR) at exchange rate BGN 1.95583 / EUR 1.0 and does not change regardless of the conditions on the foreign exchange markets and the interest rates.

A 10 percent strengthening of the euro against the following currencies at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

<i>Effect in BGN</i>	Income statement	
	2007	2006
31 December		
USD	(5,707)	(75,869)
GBP	(2,741)	(2,152)
	<u>(8,448)</u>	<u>(78,021)</u>

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Center for the Study of Democracy*Consolidated Financial Statements for the year ended 31 December 2007**Notes to the consolidated financial statements***22. Related parties**

During the year, the following transactions have taken place:

Related party	Transaction	Note	January – December		31 December		31 December	
			2007	2006	2007	2006	2007	2006
			<i>Transactions value</i>		<i>Receivables balance outstanding</i>		<i>Payables balance outstanding</i>	
ARC Consulting	Consultancy services provided to Vitosha Research EOOD		38,633	-	-	-	-	-
	Loan granted (principal)		-	8,500	-	-	-	-
	Loan granted (interest)		-	243	-	-	-	-
Applied Research & Communications Fund	Rent agreement between Project 1 EOOD and ARC		45,398	46,383	3,722	-	-	-
	Market research		-	31,684	-	-	-	-
	Coalition 2000 partnership – USD 46,338		-	11,581	-	-	-	-
	European Community – Regional Innovation Strategy – EUR 45,555		103,716	14,618	-	14,618	-	-
IR Communications EOOD	Market research with regard to IT communications		-	90,000	-	-	-	-
	Market research		-	3,000	-	-	-	-
	Donation	14	450,000	-	-	-	-	-
			<u>637,747</u>	<u>206,009</u>	<u>3,722</u>	<u>14,618</u>	<u>-</u>	<u>-</u>

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:

<i>In BGN</i>	2007	2006
Management Board	<u>102,789</u>	<u>222,746</u>

23. Contingencies

The Group has no contingent liabilities, which require disclosure.

24. Subsequent events

- On 31 January 2008 the Group received GBP 15,000 as a final payment with regard to the Border Justice project.
- On 18 April 2008 the Group sold total 377,000 equity shares in the Mutual Fund - Raiffeisen (Bulgaria) Balanced Fund for BGN 464,841.
- On 21 April 2008 the Group sold 530,425.5034 equity shares in the Mutual Fund - Raiffeisen (Bulgaria) Balanced Fund for BGN 657,515.