annual report 2005

UniCredit Leasing

UNICREDIT LEASING BULGARIA EAD

ANNUAL UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Report
of the independent auditor
to the shareholders of
Unicredit Leasing Bulgaria EAD

Sofia, 23 February 2006

We have audited the accompanying unconsolidated balance sheet of Unicredit Leasing Bulgaria EAD (“the Company”) as of 31 December 2005, and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the Company as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards, approved for application in Bulgaria by virtue of a Decree №21/4.02.2003 of the Council of Ministers and published in the State Gazette (SG), issue 13 of 2003, as described in note 1 (b).

Krassimir Hadjidinev
Authorized representative

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia
Bulgaria

Margarita Goleva
Registered auditor

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

0202 Маргарита Голева
Регистриран одитор

Income statement

In thousands of BGN

	Notes	Year ended 31 December	
		2005	**2004**
Income from finance lease	3	5,283	1,667
Impairment recoveries/(allowances)	4	(566)	(175)
Administrative expenses	5	(745)	(489)
Other operating income/(expenses), net		87	98
Profit from operations		**4,059**	**1,101**
Net financing costs	6	(1,951)	(607)
Profit before tax		**2,108**	**494**
Taxation	7	(316)	(98)
Profit after tax		**1,792**	**396**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered Auditor

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

0202 Маргарита Голева
Регистриран одитор

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 15.

Balance sheet

In thousands of BGN

	Notes	As at 31 December 2005	2004
Assets			
Property, equipment and intangible assets	8	109	45
Investments	9	5	5
Deferred tax assets	10	1	1
Finance lease receivables	11	47,991	21,933
Total non-current assets		**48,106**	**21,984**
Finance lease receivables	11	20,877	–
Inventories		312	2,070
Trade and other receivables	12	3,570	3,202
Cash and cash equivalents	13	106	243
Total current assets		**24,865**	**5,515**
Total assets		**72,971**	**27,499**
Liabilities			
Issued share capital	14	1,050	50
Retained earnings	14	2,235	443
Total shareholders' equity		**3,285**	**493**
Interest-bearing loans and borrowings	15	58,631	–
Total non-current liabilities		**58,631**	**–**
Interest-bearing loans and borrowings	15	8,099	23,939
Trade and other payables	16	2,704	2,975
Tax liabilities		252	92
Total current liabilities		**11,055**	**27,006**
Total liabilities and shareholders' equity		**72,971**	**27,499**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered Auditor

0202 Маргарита Голева
Регистриран одитор

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 15.

Cash flow statement

	Notes	Year ended 31 December 2005	2004
			In thousands of BGN
Net cash flow from operating activities			
Profit after taxation		1,792	396
Adjustments for non-cash items			
Increase in impairment allowances		566	175
Depreciation		17	7
Loss from disposal of fixed assets		–	2
Tax expense		316	99
Movement in deferred tax		–	(1)
		2,691	**678**
Change in operating assets			
(Increase) in finance lease receivables		(47,511)	(15,574)
(Increase)/decrease in other assets		1,390	(4,041)
Change in operating liabilities			
Increase in interest-bearing loans and Borrowings		42,790	16,326
Increase of other liabilities		(357)	2,535
Net cash flow from operating activities		**(997)**	**(76)**
Cash flow from investing activities			
(Acquisition) of property, equipment and intangible assets		(140)	(31)
Net cash flow from investing activities		**(140)**	**(31)**
Cash flow from equity activities			
Increase in equity shares		1,000	40
Net cash flow from equity activities		**1,000**	**40**
Net increase/(decrease) in cash and cash equivalents		**(137)**	**(67)**
Cash and cash equivalents at the beginning of period	**13**	**243**	**310**
Cash and cash equivalents at the end of period	**13**	**106**	**243**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered Auditor

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

0202 Маргарита Голева Регистриран одитор

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 15.

Statement of changes in equity

In thousands of BGN

	Note	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2004	**14**	**10**	**–**	**47**	**57**
Increase in equity shares		40	–	–	40
Net profit for the year		–	–	396	396
Balance at 1 January 2005		**50**	**–**	**443**	**493**
Increase in equity shares		1,000	–	–	1,000
Distribution to reserves		–	40	(40)	–
Net profit for the year		–	–	1,792	1,792
Balance at 31 December 2004	**14**	**1,050**	**40**	**2,195**	**3,285**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered Auditor

0202 Маргарита Голева
Регистриран одитор

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 15.

The financial statements have been approved by the Executive Director on 23 February 2006.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. BASIS OF PREPARATION

(a) Statute

Unicredit Leasing Bulgaria EAD (the Company) is incorporated in accordance with the corporate legislation of Republic of Bulgaria in 2002 under the name Unileasing OOD with owners "Finco – consult" EOOD and two individuals. In the beginning of 2004 the Company is acquired by Bulbank AD. The Company has its registered office in the city of Sofia, 8, Aksakov Street.

Its principle activities include finance lease.

(b) Statement of compliance

These financial statements have been prepared in accordance with the International Accounting Standards (IAS), approved for application in Bulgaria by virtue of a Decree №21/4.02.2003 of the Council of Ministers and published in the State Gazette (SG), issue 13 of 2003. According to the Accountancy Act, International Financial Reporting Standards (IFRS) adopted by the European Union Commission are in effect on the territory of the Republic of Bulgaria from 1 January 2005. These standards shall be officially translated into Bulgarian language, adopted by the Council of Ministers of the Republic of Bulgaria and promulgated in the State Gazette (SG). IFRS adopted by the European Union Commission have not been adopted by the Council of Ministers nor published in the SG into Bulgarian language as at the date of approval of the financial statements by the Company's management. Thus, these financial statements have been prepared on the basis of IAS approved for implementation in Bulgaria by virtue of the above stated Decree. List of these standards is enclosed as Note 22 thereto. The management has not established significant differences between the values of the net assets and the financial result for the year as reported in these financial statements and as they would have been reported under IFRS adopted by the European Union and applicable for 2005 as published in the English language in the Official Journal of the European Union.

(c) Basis of preparation

The financial statements are presented in new (redenominated) Bulgarian Leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest and lease income recognition

Unearned finance income (interest) is the difference between the gross investment in the lease and the net investment in the lease. The gross investment in the lease is the aggregate of the minimum lease payments receivable and any unguaranteed residual value accruing to the lessor. The finance charge (interest income) is allocated over the lease term on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period are regarded as reduction of the principal and finance charges.

(b) Net financing costs

Net financing costs comprise interest expenses on bank loans, interest income from funds invested, gains and losses from foreign currency transactions, other financing costs.

Interest income is recognized in the income statement as it accrues, using the effective interest rate method.

Interest expenses and other charges, related to loan agreements, are recognized in the income statement as they accrue, being part of net financing costs.

(c) Impairment of assets

Financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement or against the revaluation reserve, when applicable.

(d) Foreign currency transactions

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, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

(e) Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation.

Depreciation is provided on a straight line basis at prescribed rates designed to write-off the cost of the assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	**%**
• Buildings	4
• Equipment	15
• Hardware	50
• Fixtures and fittings	15
• Vehicles	25

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(f) Intangible assets

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Asset	%
Computer software	50
Other intangible assets	15

(g) Investments

Investments that the Company holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Company has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

Investments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All financial assets held-to-maturity are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(h) Finance lease receivables

Net investments in the lease are presented as finance lease receivables in the balance sheet of the Company. Lease payments relating to the period are regarded as reduction of the principal and finance charges, payable to the lessor as a compensation for the investment.

Finance lease receivables are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of the receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these receivables to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar receivables to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a finance lease receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, then it is written off directly.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, current accounts and call deposits.

(j) Interest-bearing loans and borrowings

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

(k) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(l) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(m) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Income from finance lease

In thousands of BGN

	2005	2004
Interest and lease income		
Interest income from finance lease	4,799	1,580
Fee and commission income	413	71
Other lease income	71	16
Total interest and lease income	**5,283**	**1,667**

4. Impairment allowances

In 2005 the Company follows its policy of impairment of the finance lease receivables on a portfolio basis. General allowance of 1 % is made against the outstanding principles and matured instalments on finance leases. Following a management decision, for lessees operating in transport business the allowance is 1.3% due to the worsened condition of this particular sector. The lease portfolio, subject to provisions for general risks, does not include lease contracts insured against financial risk and balances for which a specific allowance is made. In 2005 the company accrued additional impairment allowance for general risks amounting to BGN 506 thousands. As at the end of the accounting period the specific allowance amounts to BGN 60 thousands.

5. Administrative expenses

In thousands of BGN

	2005	2004
Personnel cost	438	256
Depreciation and amortization	17	7
Administration, marketing and other costs	290	226
Total	**745**	**489**

Personnel costs include salaries, social and health security contributions and contributions to the unemployment fund under the provisions of the local legislation.

6. Net financing costs

In thousands of BGN

	2005	2004
Interest expense	1,781	551
Fees and commissions	160	44
Foreign exchange gains/(losses)	10	12
Total	**1,951**	**607**

7. Taxation

In thousands of BGN

	2005	2004
Current tax	316	99
Deferred tax (asset)	–	(1)
Total tax, reported in the Income statement	**316**	**98**

8. Property, equipment and intangible assets

In thousands of BGN

	Machines and equipment	Fixtures and fittings	Vehicles	Other assets	Intangible assets	Assets under construction	Total
Cost							
As at 1 January 2005	7	18	–	21	–	15	61
Additions	54	3	19	–	17	66	159
Disposals	–	–	–	–	–	(78)	(78)
As at 31 December 2005	**61**	**21**	**19**	**21**	**17**	**3**	**142**
Depreciation							
As at 1 January 2005	6	6	–	4	–	–	16
Charge for the year	4	1	1	2	9	–	17
Disposals	––	–	–	–	–	–	
As at 31 December 2005	**10**	**7**	**1**	**6**	**9**	**–**	**33**
Net book value as at 31 December 2004	**1**	**12**	**–**	**17**	**–**	**15**	**45**
Net book value as at 31 December 2005	**51**	**14**	**18**	**15**	**8**	**3**	**109**

9. Investments

In 2003 Unicredit Leasing Bulgaria EAD registers the subsidiary company Unicredit Leasing Auto Bulgaria EOOD with 100% share in the capital. The equity investments amount to BGN 5 thousand (2004: BGN 5 thousand) and comprise 5,000 shares of the above named subsidiary. The investments classified as equity investments are stated at cost, as they do not have quoted market prices in an active market.

10. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 15% for 2006, when the earliest possible settlement of differences is expected.

Deferred income tax balances are attributable to the following items:

In thousands of BGN

	Assets		Liabilities		Net	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Provisions for unused leave holiday	(1)	(1)	–	–	(1)	(1)
Net tax (assets)/liabilities	**(1)**	**(1)**	**–**	**–**	**(1)**	**(1)**

Movement in temporary differences during the year arises from:

In thousands of BGN

	Balance	Recognised during the year		Balance
	2004	**Income statement**	**Equity**	**2004**
Provisions for unused leave holiday	(1)	–	–	(1)
Net deferred taxes (assets)/liabilities	**(1)**	**–**	**–**	**(1)**

11. Finance lease receivables

In thousands of BGN

	2005	**2004**
Individuals	423	375
Financial institutions	1,057	–
Private companies	68,129	21,733
	69,609	21,733
Less impairment allowances	(741)	(175)
Total	**68,868**	**21,933**

The finance lease receivables have the following maturity:

In thousands of BGN

	Minimum Lease Payments		Principal		Unearned finance income	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Less than one year	25,191	842	20,877	790	4,360	52
Between one and five years	57,858	24,822	47,991	21,046	9,942	3,776
More than five years	–	123	–	97	–	26
Total	**83,049**	**25,787**	**68,868**	**21,933**	**14,302**	**3,854**

For 2005 the net investment in finance lease has an effective yield between 11% and 12% on annual basis.

12. Trade and other receivables

In thousands of BGN

	2004	2004
Tax receivables	2,046	1,768
Receivables from clients	–	1,407
Receivables from suppliers	1,066	–
Other current receivables	458	27
Total	**3,570**	**3,202**

13. Cash and cash equivalents

In thousands of BGN

	2005	2004
Cash on hand	1	1
Cash with banks	105	242
Total	**106**	**243**

14. Capital and reserves

As of 31 December 2005, the share capital of Unicredit Leasing Bulgaria EAD amounts to BGN 1,050 thousands and is fully paid in. The registered share capital consists of 1,050 thousands ordinary shares, each one with a nominal value of BGN 1. In 2005 the share capital of the Company was increased by BGN 1,000 thousands as a result of a decision of its sole owner Bulbank AD.

The reserves comprise retained earnings and accumulated losses from previous periods.

15. Interest-bearing loans and borrowings

In thousands of BGN

	2005	2004
Long-term bank loans	58,631	–
Short-term bank loans	8,099	23,939
Total	**66,730**	**23,939**

As of 31 December 2004 the Company's liabilities, related to an overdraft facility, amount to BGN 23,939 thousands (EUR 12,240 thousand). As of 31 December 2005 the Company has short-term liabilities for revolving credit facility towards Bulbank AD amounting to BGN 8,099 thousands (EUR 4,141 thousands) and long-term liabilities for bank loan with DEG Germany amounting to BGN 19,400 thousands (EUR 9,919 thousands) and for bank loan with UniCredito Italiano, Italy amounting to BGN 39,231 thousands (EUR 20,058 thousands).

16. Trade and other payables

In thousands of BGN

	2004	2004
Payables to suppliers	2,017	1,272
Advance payments from clients	496	1,617
Liabilities to personnel	101	85
Social contributions liabilities	2	1
Other liabilities	88	–
Total	**2,704**	**2,975**

17. Contingent liabilities

As of 31 December 2005 the Company has commitments of BGN 14,303 thousands (2004: BGN 11,605 thousands) to deliver machines and equipment to customers under the terms of finance lease.

18. Related party transactions

Transactions and balances

In thousands of BGN

Related party	Nature of the related party relationship	Type of transaction	Amount
Bulbank AD	Share capital owner	Revolving credit facility	8,099
		Current accounts	105
		Interest paid	1,476
UniCredito Italiano	Parent company	Bank loan	39,231
		Interest paid	114

The remuneration of the management of the company in 2005 amounts to BGN 107 thousands.

19. Subsequent events

There are no events after the balance sheet date of such a nature that would require either adjustments or additional disclosures to the financial statements.

20. Parent company

The parent company of Unicredit Leasing Bulgaria EAD is Bulbank AD. The ultimate parent is UniCredito Italiano, Italy.

As the company is a subsidiary of Bulbank AD, which consolidates the financial statements of both Unicredit Leasing Bulgaria EAD and Unicredit Leasing Auto Bulgaria EOOD, Unicredit Leasing EAD does not prepare consolidated financial statements.

21. Risk management disclosures

Credit risk

The Company's primary exposure to credit risk arises from its net investment in finance lease and the resulting receivables from lease contracts. The credit risk exposure in this regard is represented by the probability that the clients do not pay their lease installments in accordance with the initial contractual obligations.

The policy that the Company has adopted in order to minimize the risk of defaults is to deal with counterparties of good credit standing, as well as ensuring proper collateral on lease contracts – insurance against financial risk, retention of the original title deed of the goods, special pledge, guarantee or promissory note.

Concentrations of credit risk arise from the Company's counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by location and type of customer in relation to the Company's investments in finance lease contracts.

Total on balance sheet economic sector credit risk concentrations are presented in the table below:

In thousands of BGN

	2005	**2004**
Trade and services	22,844	11,141
Production	18,882	3,517
Construction	6,926	998
Agriculture	1,827	731
Transport and communications	15,506	5,331
Other industries	2,144	15
Financial institutions	1,057	–
Individuals	423	375
	69,609	22,108
Less allowance for uncollectability	(741)	(175)
	68,868	**21,933**

22. Applicable accounting standards for 2005

IAS 1 (revised 1997)	Presentation of Financial Statements
IAS 2 (revised 1993)	Inventories
IAS 7 (revised 1992)	Cash Flow Statement
IAS 8 (revised 1993)	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Polices
IAS 10 (revised 1999)	Event after the Balance Sheet Events
IAS 11 (revised 1993)	Construction Contracts
IAS 12 (revised 2000)	Income Taxes
IAS 14 (revised 1997)	Segment Reporting
IAS 16 (revised 1998)	Property, Plant and Equipment
IAS 17 (revised 1997)	Leases
IAS 18 (revised 1993)	Revenue
IAS 19 (revised 2000)	Employee Benefits
IAS 20 (reformatted 1994)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 (revised 1993)	The Effects of Changes in Foreign Exchange Rates
IAS 22 (revised 1998)	Business Combinations
IAS 23 (revised 1993)	Borrowing Costs
IAS 24 (revised 1994)	Related Party Disclosures
IAS 26 (reformatted from 1994)	Accounting of Retirement Benefit Plans
IAS 27 (reformatted from 1994)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28 (revised 2000)	Accounting for Investments in Associates
IAS 29 (reformatted from 1994)	Financial Reporting in Hyperinflationary Economics
IAS 30 (reformatted from 1994)	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31 (revised 2000)	Financial Reporting of Interests in Joint Ventures
IAS 32 (revised 1998)	Financial Instruments: Disclosure and Presentation
IAS 33 (Approved 1997)	Earnings per Share
IAS 34 (Approved 1998)	Interim Financial Reporting
IAS 35 (Approved 1998)	Discontinuing Operations
IAS 36 (Approved 1998)	Impairment of Assets
IAS 37 (Approved 1998)	Provisions, Contingent Liabilities and Contingent Assets
IAS 38 (Approved 1998)	Intangible Assets
IAS 39 (revised 2000)	Financial Instruments: Recognition and Measurement
IAS 40 (Approved 2000)	Investment Property
IAS 41 (Approved 2000)	Agriculture

UNICREDIT LEASING AUTO BULGARIA EOOD

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Report of the independent auditor to the shareholders of Unicredit Leasing Auto Bulgaria EOOD

Sofia, 23 February 2006

We have audited the accompanying balance sheet of Unicredit Leasing Auto Bulgaria EOOD ("the Company") as of 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards, approved for application in Bulgaria by virtue of a Decree №21/4.02.2003 of the Council of Ministers and published in the State Gazette, issue 13 of 2003, as described in note 1 (b).

Krassimir Hadjidinev
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia
Bulgaria

Специализирано одиторско предприятие "КПМГ - България" ООД София Рег. №045

0202 Маргарита Голева Регистриран одитор

Income statement

In thousands of BGN

	Notes	Year ended 31 December	
		2005	2004
Income from finance lease	3	348	54
Impairment recoveries/(allowances)	4	(42)	(11)
Administrative expenses	5	(16)	(5)
Other operating income/(expenses), net		1	3
Profit/(loss) from operations		**291**	**41**
Net financing costs	6	(156)	(28)
Profit/(loss) before tax		**135**	**13**
Taxation	7	(20)	(3)
Profit/(loss) after tax		**115**	**10**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered Auditor

0202 Маргарита Голева
Регистриран одитор

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 23 to 29.

Balance sheet

In thousands of BGN

	Notes	As at 31 December 2005	2004
Assets			
Property and equipment	8	22	–
Finance lease receivables	9	4,925	1,219
Total non-current assets		**4,947**	**1,219**
Finance lease receivables	9	2,160	–
Trade and other receivables	10	538	276
Cash and cash equivalents	11	21	18
Total current assets		**2,719**	**294**
Total assets		**7,666**	**1,513**
Liabilities			
Issued share capital	12	5	5
Retained earnings	12	123	8
Total shareholders' equity		**128**	**13**
Interest-bearing loans and borrowings	13	7,314	1,499
Trade and other payables		224	1
Total current liabilities		**7,538**	**1,500**
Total liabilities and shareholders' equity		**7,666**	**1,513**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered Auditor

0202 Маргарита Голева
Регистриран одитор

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 23 to 29.

Cash flow statement

In thousands of BGN

	Notes	Year ended 31 December 2005	2004
Net cash flow from operating activities			
Profit after taxation		115	10
Adjustments for non-cash items			
Depreciation		2	–
Increase in impairment allowances		42	11
Tax expense		20	3
		179	**24**
Change in operating assets			
(Increase) in finance lease receivables		(5,873)	(1,230)
(Increase) in other assets		(297)	(276)
Change in operating liabilities			
Increase in interest-bearing loans and borrowings		5,815	1,499
Increase/(decrease) in other liabilities		203	(4)
Net cash flow from operating activities		**27**	**13**
Cash flow from equity activities			
Increase in equity shares		(24)	–
Net cash flow from equity activities		**(24)**	**–**
Net increase in cash and cash equivalents		**3**	**13**
Cash and cash equivalents at the beginning of period	**11**	**18**	**5**
Cash and cash equivalents at the end of period	**11**	**21**	**18**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

Margarita Goleva
Registered Auditor

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

0202 Маргарита Голева Регистриран одитор

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 23 to 29.

Statement of changes in equity

In thousands of BGN

	Note	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2004	**11**	**5**	**–**	**(2)**	**3**
Net profit for the year	–	–	10	10	
Balance at 1 January 2005		**5**	**–**	**8**	**13**
Distribution to reserves		–	9	(9)	–
Net profit for the year		–	–	115	115
Balance at 31 December 2005	**11**	**5**	**9**	**114**	**128**

Plamen Minev
Executive Director

Krassimir Hadjidinev
Registered Auditor
Authorised Representative
KPMG Bulgaria OOD

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered Auditor

0202 Маргарита Голева
Регистриран одитор

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 23 to 29.

The financial statements have been approved by the Executive Director on 23 February 2006.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

(a) Statute

Unicredit Leasing Auto Bulgaria EOOD (the Company) is incorporated in accordance with the corporate legislation of Republic of Bulgaria in 2003. The Company has its registered office in the city of Sofia, 8, Aksakov Street. The parent company of Unicredit Leasing Auto Bulgaria EOOD is Unicredit Leasing Bulgaria EAD.

Its principle activities include finance lease.

(b) Statement of compliance

These financial statements have been prepared in accordance with the International Accounting Standards (IAS), approved for application in Bulgaria by virtue of a Decree №21/4.02.2003 of the Council of Ministers and published in the State Gazette (SG), issue 13 of 2003. According to the Accountancy Act, International Financial Reporting Standards (IFRS) adopted by the European Union Commission are in effect on the territory of the Republic of Bulgaria from 1 January 2005. These standards shall be officially translated into Bulgarian language, adopted by the Council of Ministers of the Republic of Bulgaria and promulgated in the State Gazette (SG). IFRS adopted by the European Union Commission have not been adopted by the Council of Ministers nor published in the SG into Bulgarian language as at the date of approval of the financial statements by the Company's management. Thus, these financial statements have been prepared on the basis of IAS approved for implementation in Bulgaria by virtue of the above stated Decree. List of these standards is enclosed as Note 19 thereto. The management has not established significant differences between the values of the net assets and the financial result for the year as reported in these financial statements and as they would have been reported under IFRS adopted by the European Union and applicable for 2005 as published in the English language in the Official Journal of the European Union.

(c) Basis of preparation

The financial statements are presented in new (redenominated) Bulgarian Leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest and lease income recognition

Unearned finance income (interest) is the difference between the gross investment in the lease and the net investment in the lease. The gross investment in the lease is the aggregate of the minimum lease payments receivable and any unguaranteed residual value accruing to the lessor. The finance charge (interest income) is allocated over the lease term on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period are regarded as reduction of the principal and finance charges.

(b) Net financing costs

Net financing costs comprise interest expenses on bank loans, interest income from funds invested, gains and losses from foreign currency transactions, other financing costs.

Interest income is recognized in the income statement as it accrues, using the effective interest rate method.

Interest expenses and other charges, related to loan agreements, are recognized in the income statement as they accrue, being part of net financing costs.

(c) Impairment of assets

Financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement or against the revaluation reserve, when applicable.

(d) Foreign currency transactions

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, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

(e) Property, plant and equipment

Property and equipment are stated at cost less accumulated depreciation.

Depreciation is provided on a straight line basis at prescribed rates designed to write-off the cost of the assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	**%**
• Buildings	4
• Equipment	15
• Hardware	50
• Fixtures and fittings	15
• Vehicles	25

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(f) Intangible assets

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Asset	%
Computer software	50
Other intangible assets	15

(g) Investments

Investments that the Company holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Company has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

Investments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All financial assets held-to-maturity are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(h) Finance lease receivables

Net investments in the lease are presented as finance lease receivables in the balance sheet of the Company. Lease payments relating to the period are regarded as reduction of the principal and finance charges, payable to the lessor as a compensation for the investment.

Finance lease receivables are presented net of specific and general allowances for uncollectibility. Specific allowances are made against the carrying amount of the receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these receivables to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar receivables to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the income statement. When a finance lease receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, it is written off directly.

(h) Finance lease receivables, continued

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, current accounts and call deposits.

(j) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and 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 borrowing on an effective interest basis.

(k) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

(l) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

(m) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Income from finance lease

In thousands of BGN

	2005	2004
Interest and lease income		
Interest income from finance lease	320	51
Fee and commission income	23	3
Other lease income	5	–
Total interest and lease income	**348**	**54**

4. Impairment allowances

In 2005 the Company follows its policy of impairment of the finance lease receivables on a portfolio basis. General allowance of 1 % is made against the outstanding principles and matured instalments on finance leases. Following a management decision, for lessees operating in transport business the allowance is 1.3% due to the worsened condition of this particular sector. The lease portfolio, subject to provisions for general risks, does not include lease contracts insured against financial risk and balances for which a specific allowance is made. In 2005 the company accrued additional impairment allowance for general risks amounting to BGN 42 thousands. As at the end of the accounting period there are no specific allowances accrued.

5. Administrative expenses

In thousands of BGN

	2005	2004
Administration, marketing and other costs	16	5
Total	**16**	**5**

6. Net financing costs

In thousands of BGN

	2005	2004
Interest expense	141	25
Fees and commissions	12	2
Foreign exchange gains (losses)	3	1
Total	**156**	**28**

7. Taxation

In thousands of BGN

	2005	2004
Current tax	20	3
Total tax, reported in the Income statement	**20**	**3**

8. Property, plant and equipment

In thousands of BGN

	Vehicles	Total
Cost		
As at 1 January 2005	–	–
Additions	24	24
Disposals	–	–
As at 31 December 2005	**24**	**24**
Depreciation		
As at 1 January 2005	–	–
Charge for the year	2	2
Disposals	–	–
As at 31 December 2005	**2**	**2**
Net book value as at 31 December 2004	**–**	**–**
Net book value as at 31 December 2005	**22**	**22**

9. Finance lease receivables

In thousands of BGN

	2005	2004
Individuals	1,419	220
Financial institutions	343	–
Private companies	5,376	1,010
	7,138	1,230
Less impairment allowances	(53)	(11)
Total	**7,085**	**1,219**

As at 31 December 2005 finance lease receivables are due as follows:

In thousands of BGN

	Minimum Lease Payments	Principal	Unearned finance income
Less than one year	2,556	2,160	396
Between one and five years	5,802	4,925	877
Total	**8,358**	**7,085**	**1,273**

10. Trade and other receivables

In thousands of BGN

	2005	2004
Tax receivables	444	239
Receivables from clients	–	35
Other current receivables	94	2
Total	**538**	276

11. Cash and cash equivalents

In thousands of BGN

	2005	2004
Cash on hand	2	2
Cash with banks	19	16
Total	**21**	**18**

12. Capital and reserves

As of 31 December 2005 the registered share capital of Unicredit Leasing Auto Bulgaria EOOD amounts to BGN 5 thousands and is fully paid in. It consists of 5 thousands ordinary shares, each one with a nominal value of BGN 1.

The reserves comprise retained earnings and accumulated losses from previous periods.

13. Interest-bearing loans and borrowings

As of 31 December 2005 the Company's liabilities, related to revolving credit facility due to Bulbank AD, amount to BGN 7,314 thousands (EUR 3,740 thousand).

14. Contingent liabilities

As of 31 December 2005 the Company has commitments of BGN 1,163 thousands to deliver vehicles to customers under the terms of finance lease.

15. Related party transactions

Transactions and balances

In thousands of BGN

Related party	Nature of the related party relationship	Type of transaction	Amount
Bulbank AD	Company from the UniCredito Italiano Group	Loan	7,314
		Demand accounts	19
		Interest and fees paid	153

16. Subsequent events

There are no events after the balance sheet date of such a nature that would require either adjustments or additional disclosures to the financial statements.

17. Parent company

The parent company of Unicredit Leasing Auto Bulgaria EOOD is Unicredit Leasing Bulgaria EAD. Its ultimate parent is UniCredito Italiano, Italy.

18. Risk management disclosures

Credit risk

The Company's primary exposure to credit risk arises from its net investment in finance lease and the resulting receivables from lease contracts. The credit risk exposure in this regard is represented by the probability that the clients do not pay their lease installments in accordance with the initial contractual obligations.

The policy that the Company has adopted in order to minimize the risk of defaults is to deal with counterparties of good credit standing, as well as ensuring proper collateral on lease contracts – insurance against financial risk, retention of the original title deed of the goods, special pledge, guarantee or promissory note.

Concentrations of credit risk arise from the Company's counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by location and type of customer in relation to the Company's investments in finance lease contracts.

Total on balance sheet economic sector credit risk concentrations are presented in the table below:

In thousands of BGN

	2005	2004
Trade and services	3,075	382
Production	621	340
Construction	409	42
Agriculture	39	8
Transport and communications	1,232	238
Financial institutions	343	–
Individuals	1,419	220
	7,138	1,230
Less allowance for uncollectability	(53)	(11)
	7,085	**1,219**

19. Applicable accounting standards for 2005

IAS 1 (revised 1997)	Presentation of Financial Statements
IAS 2 (revised 1993)	Inventories
IAS 7 (revised 1992)	Cash Flow Statement
IAS 8 (revised 1993)	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Polices
IAS 10 (revised 1999)	Event after the Balance Sheet Events
IAS 11 (revised 1993)	Construction Contracts
IAS 12 (revised 2000)	Income Taxes
IAS 14 (revised 1997)	Segment Reporting
IAS 16 (revised 1998)	Property, Plant and Equipment
IAS 17 (revised 1997)	Leases
IAS 18 (revised 1993)	Revenue
IAS 19 (revised 2000)	Employee Benefits
IAS 20 (reformatted 1994)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 (revised 1993)	The Effects of Changes in Foreign Exchange Rates
IAS 22 (revised 1998)	Business Combinations
IAS 23 (revised 1993)	Borrowing Costs
IAS 24 (revised 1994)	Related Party Disclosures
IAS 26 (reformatted from 1994)	Accounting of Retirement Benefit Plans
IAS 27 (reformatted from 1994)	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28 (revised 2000)	Accounting for Investments in Associates
IAS 29 (reformatted from 1994)	Financial Reporting in Hyperinflationary Economics
IAS 30 (reformatted from 1994)	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31 (revised 2000)	Financial Reporting of Interests in Joint Ventures
IAS 32 (revised 1998)	Financial Instruments: Disclosure and Presentation
IAS 33 (Approved 1997)	Earnings per Share
IAS 34 (Approved 1998)	Interim Financial Reporting
IAS 35 (Approved 1998)	Discontinuing Operations
IAS 36 (Approved 1998)	Impairment of Assets
IAS 37 (Approved 1998)	Provisions, Contingent Liabilities and Contingent Assets
IAS 38 (Approved 1998)	Intangible Assets
IAS 39 (revised 2000)	Financial Instruments: Recognition and Measurement
IAS 40 (Approved 2000)	Investment Property
IAS 41 (Approved 2000)	Agriculture