PROSPECTUS dated 27 September 2007

SPARKY ELTOS AD

(incorporated as a joint-stock company under the laws of the Republic of Bulgaria)

Offering of 2,800,000 Ordinary Shares

Issue Price: BGN 16 per Share

Sparky Eltos AD (**Sparky Eltos,** or the **Company**) is increasing its capital to BGN 16,800,000 (the **Capital Increase**) under the terms and conditions of a public offering of 2,800,000 ordinary shares, each one with a nominal value of BGN 1 (**New Shares**). The public offering in relation to the Capital Increase (the **Offering**) shall include the offering for subscription of New Shares, as well as the rights for subscription of New Shares (**Rights**), and the Rights shall be registered for trading on the Bulgarian Stock Exchange – Sofia AD (**Bulgarian Stock Exchange** or **BSE**). This Prospectus has been prepared in compliance with the Bulgarian law and the rules for admission to trading on the Bulgarian Stock Exchange, and has been approved by the Financial Supervision Commission of the Republic of Bulgaria (**FSC**). Immediately after the registration of the New Shares in the Company Register, Central Depository AD, and FSC, an application shall be submitted to register the New Shares for stock exchange trading, and they shall be traded on the Official Market of the Bulgarian Stock Exchange together with the currently existing shares of Sparky Eltos (**Shares**) under the stock exchange ticker ELTOS. It is expected that the trade in New Shares on BSE will commence on or around 17 December 2007.

The New Shares are offered outside the United States in relation to Regulation S (**Regulation S**) on the implementation of the US Securities Act of 1933, as amended (**US Securities Act**). The New Shares are not and shall not be registered under the US Securities Act, or with any other regulatory body or jurisdiction outside Bulgaria, and can not be offered or sold in the United States to, or at the expense of, US citizens (as defined in Regulation S), except when pursuant to an exemption from registration.

Investment in shares entails certain risks. It is in the investors' interest to read this Prospectus thoroughly, paying special attention to the section on Risk Factors on page 10 of this Prospectus, before deciding on an investment in New Shares.

This Prospectus contains essential information on Sparky Eltos necessary for deciding whether to invest in New Shares. According to Bulgarian law, the members of the Management Board of Sparky Eltos shall be liable jointly and severally for damage caused by false, misleading, or incomplete data in the Prospectus. The persons responsible for the preparation of the financial statements of Sparky Eltos shall be liable jointly and severally with the members of the Management Board of the Company for any damage caused by false, misleading, or incomplete data in its financial statements, and the auditor of Sparky Eltos – for damage caused by the audited financial statements of the Company. In this regard, the above persons have declared the relevant circumstances as required by the law.

THE FINANCIAL SUPERVISION COMMISSION HAS APPROVED THIS PROSPECTUS BY DECISION … OF… September 2007, WHICH IS NOT A RECOMMENDATION TO INVEST IN THE OFFERED SHARES. THE FINANCIAL SUPERVISION COMMISSION SHALL NOT BE LIABLE FOR THE ACCURACY AND EXHAUSTIVENESS OF THE DATA CONTAINED IN THIS PROSPECTUS.

Lead Manager of the Offering

UniCredit Bulbank

27 September 2007

Potential investors can obtain a free copy of this Prospectus at the following addresses:

- At the office of Sparky Eltos, Sofia Branch, at 18 Parva Bulgarska Armia Blvd, www.sparkygroup.com; tel: +359 2 932 0 567, contact persons: Rayna Hristova, from 9.00 to 17.00 hrs. every business day;
- At the office of UniCredit Bank, 7 Sveta Nedelya Sq., Sofia, tel. +359 (02) 9320 128, website: www.bulbank.bg, contact person: Yolanda Hristova, from 9.00 to 17.00 hrs. every work day.

This Prospectus and additional public information on Sparky Eltos can also be obtained from the public register of the Financial Supervision Commission (www.fsc.bg), as well as from the Bulgarian Stock Exchange.

The New Shares carry rights equal to those given by the other issued Shares, and carry right to a dividend and other declared distributions made or paid in connection to the Shares after the Capital Increase has been entered into the company register.

UniCredit Bulbank AD, as Lead Manager of the Offering (the **Lead Manager** or **UniCredit Bank**), acts on behalf of Sparky Eltos and no other person in relation to the Offering, and shall not be answerable to persons different from Sparky Eltos for providing protection such as the one it provides to its clients, or for providing advice in relation to the Offering or a transaction or an agreement referred to in this document.

The distribution of this document and the offering of the Shares in some jurisdictions may be restricted by law.

In connection with this, neither this document nor an advertisement or another material related to the Offering may be distributed or published in a given jurisdiction, except in circumstances that will result in compliance with the applicable legislature. The persons who come into possession of this document have to acquaint themselves and comply with any such restrictions. Any failure to observe the restrictions may constitute a violation of the securities law of such a jurisdiction. For information about the restrictions related to the Offering and the distribution of this document, see *Subscription and Sale*.

Potential investors should rely only on the information contained in this document. No person has been authorized to provide information or to make statements different from the ones contained in this document, and if provided or presented, such information or statements must not be considered as authorized by Sparky Eltos or the Lead Manager. Without excluding the obligation of Sparky Eltos to publish a supplement to the prospectus in compliance with the Bulgarian Public Offer of Securities Act of 1999, neither the provision of this document nor the subscription or the purchase of Shares performed in accordance with this document, under any circumstances, lead to the conclusion that there has been no change in the scope of activity of Sparky Eltos or that the information contained in this document is correct after the date of this document.

The contents of this document should not be considered as a legal, financial, business, or taxation advice. Every potential investor should consult their own legal, financial, or taxation consultant for legal, financial, or taxation advice. If you have any doubts as to the contents of this document, you should consult a broker, bank manager, lawyer, accountant, or other financial adviser. You should bear in mind that the price of securities and the profit they yield may decrease as well as increase.

With regard to the Offering, the Lead Manager, acting as investor on its own account, may acquire Shares and, in that capacity, may keep, purchase, sell, offer for sale, or otherwise dispose of these securities, other securities of Sparky Eltos, or other related investments connected to the Offering, or in another manner. The Lead Manager does not intend to disclose the size of such investments or transactions in a different manner except in compliance with its legal obligations to do so.

FORWARD-LOOKING STATEMENTS

This document contains statements that reflect the current vision of Sparky Eltos, or of the members of the Supervisory Board of Sparky Eltos (**Supervisory Board**) and the members of the Management Board of the Company (**Management Board**) (referred to collectively as the **Directors**) respectively, concerning the financial results, business strategy, plans and goals of the management with regard to future operations.

These forward-looking statements concern Sparky Eltos as well as the sectors and industries the Issuer operates in. Statements that include the words *expects, intends, plans, believes, projects, accepts, will, aims, strives, can, could be, continues*, and other such statements with regard to the future constitute forward-looking-statements for the purposes of the Bulgarian securities legislature and for other purposes.

All forward-looking statements included in this document are concerned with issues that involve risks and uncertainty. Therefore important factors exist or may arise that could cause the actual results of Sparky Eltos to differ significantly from those given in the statements. These factors include but are not limited only to the ones described in the section of this document entitled *Risk Factors*. These factors should be considered in view of the other warning statements included in this document. Any forward-looking statements in this document reflect the current view of Sparky Eltos regarding future events, and are subject to these and other risks, uncertainty, and assumptions related to the activity of Sparky Eltos, the results of its operations, and its growth and liquidity strategies.

Any forward-looking statements are up-to-date only as of the date of this document. Beyond the obligations under Bulgarian law and the Rules of the Bulgarian Stock Exchange, Sparky Eltos does not take it upon itself to update publicly or to comment any of the forward-looking statements, whether as a result of additional information, newly arising circumstances, or otherwise. This should be taken into account with regard to all subsequent written or oral forward-looking statements of Sparky Eltos, or of persons acting on behalf of Sparky Eltos. Before making an investment decision, potential investors should carefully consider the factors stated in this document, which may cause the actual results of Sparky Eltos to differ from the ones presented in this document.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, the financial information in this document has been prepared in compliance with the International Financial Reporting Standards (IFRS).

Anyone who is considering the acquisition of Shares should rely on their own research of Sparky Eltos, on the terms and conditions of the Offering, and on the financial information in this document.

Some data contained in this document, including the financial information, have been subject to rounding up and approximation. In view of this, in some individual cases the sum of figures in a column or in a row in a table or percentages contained in this document may not correspond accurately to the total given in the respective column or row.

PRESENTATION OF MARKET AND ECONOMIC INFORMATION

The market, economic, and industry information used in this document has been taken from various professional and other independent sources. The accuracy and exhaustiveness of such information are not guaranteed.

The information contained in this document relating to the industries in which Sparky Eltos and its competitors operate (which may include estimates and approximations) has been taken from publicly accessible information, including publications and disclosed information under the existing securities legislature and other legal regulations. Sparky Eltos confirms that such information has been accurately reproduced from its sources and, as far as the Issuer is aware and is able to ascertain, no facts have been omitted that could render the reproduced information incorrect or misleading. Even so, Sparky Eltos relied on the accuracy of this information without carrying out independent research. Certain information in this document regarding Bulgaria and the Bulgarian securities market has been taken from documents and other official public and private sources, including from participants on the capital markets and in the financial sector in Bulgaria. The presented information is not necessarily completely uniform from one source to another. In view of this, Sparky Eltos is liable only for the accurate reproduction of extracts from the respective sources of information. The Issuer does not assume additional or any other responsibility with regard to the reproduced information.

The numbers in this Prospectus are presented in the following manner: the number *one thousand point zero five* is *1,000.05*, the number *one thousand point five* is *1,000.50*; the *number one million* is *1,000,000* or *1,000,000.00*, and all other numbers are written or presented in the same manner, unless otherwise indicated.

NO INCORPORATION OF WEBSITE INFORMATION

The contents of the webpage of Sparky Eltos do not form part of this Prospectus.

CURRENCY PRESENTATION

Unless otherwise indicated, all references in this document to ***Euro, EUR***, or **€** are to the lawful currency of the European Union, all references to ***US$, $,*** or ***US Dollars*** are to the lawful currency of the United States, and all references to ***BGN, Lev,*** or ***Leva*** are to the lawful currency of the Republic of Bulgaria.

EXCHANGE RATES

In 1997 the Lev was pegged to the Deutsche Mark and subsequently to the Euro. Currently, the exchange rate is fixed by the Bulgarian National Bank (BNB) at EUR 1 = BGN 1.95583 (BGN 1.00 = EUR 0.51)

The table below shows information on the average, high, low, and the period-end daily reference exchange rate for the periods indicated, as published by BNB, expressed in Leva per USD 1.00:

	By 31 August 2007	2006	2005	2004
		(Leva per USD 1.00)		
Period end	1.42709	1.48506	1.65790	1.43589
Average[(1)]	1,46119	1.55944	1.57482	1.57369
High	1.51697	1.65021	1.67638	1.65720
Low…	1.41389	1.46713	1.44801	1.43463

(1) The average of the daily reference exchange rates during the relevant period.

Unless otherwise indicated in this document, all translations form Leva to Euro and back contained in this document are based on the fixed BNB exchange rate of EUR 1=BGN 1.95583

NOTICE TO NON-BULGARIAN INVESTORS

Sparky Eltos is a joint-stock company established in the Republic of Bulgaria and the substantial part of its assets is located in Bulgaria. Most of the members of the Supervisory and Management Boards of Sparky Eltos are Bulgarian citizens, and the substantial part of their property is located in Bulgaria. As a result, it may be difficult for non-Bulgarian investors to initiate legal proceedings in Bulgaria against Sparky Eltos and the members of its Supervisory or Management Boards in connection with the Offered Shares. Furthermore, foreign investors may encounter difficulties also in enforcing judgments of foreign courts and other authorities against Sparky Eltos and members of its Supervisory or Management Boards (the procedure for recognition and admission for enforcement of foreign court judgments and other acts is applied in compliance with the Bulgarian Private International Law Code).

REFERENCES TO DEFINED TERMS

Certain terms used in this document, including certain capitalized terms, are defined in ***Definitions.***

Sparky Eltos is a joint-stock company operating under a two-tier management system, including (a) Management Board, and (b) Supervisory Board.

The Supervisory Board of Sparky Eltos consists of:

- Stanislav Petkov – Chairman of the Supervisory Board;
- Petar Baburkov – Chairman of the Supervisory Board;
- Stoyan Tsokov Spasov – member of the Supervisory Board.

The Management Board of Sparky Eltos consists of:

- Nikolay Atanasov Kalbov – Chairman of the Management Board and Chief Executive Director.
- Petar Minkov Atanasov – Deputy Chairman of the Management Board and Executive Director;
- Ivan Georgiev Alexiev – member of the Management Board;
- Gina Yordanova Kalcheva - member of the Management Board;
- Anatoliy Georgiev Ivanov – member of the Management Board;
- Miroslav Iliev Kalonkin – member of the Management Board;
- Dimitar Ivanov Bodzhakov – member of the Management Board.

The Company is represented by Nikolay Atanasov Kalbov and Petar Minkov Atanasov, jointly and severally.

Lead Manager of the Offering, advising Sparky Eltos with regard to the Offering, and authorized *inter alia* to promote the Offering and organize the subscription for New Shares, is *UniCredit Bulbank AD*, with registered and business address office: 7 Sveta Nedelya Sq., Vazrazhdane Region, Sofia, Bulgaria.

Legal Advisor to Sparky Eltos with regard to the Offering, including with regard to this Prospectus, is *Dimitrov, Tchompalov, and Todorova OOD*, with registered office and business address: 22-24 Major Parvan Toshev Str., 1408 Sofia, Bulgaria.

Auditor: Auditor of Sparky Eltos for 2004, 2005, and 2006 is *Grant Thornton Bulgaria OOD*, with headquarters and registered seat: 54 William Gladstone Str., floor 3, 1000 Sofia, through the registered auditor Marii Apostolov, Registration No 0488.

Persons responsible for the information provided in the Prospectus are: *Nikolay Atanasov Kalbov*, Chief Executive Director and Chairman of the Management Board, *Petar Minkov Atanasov*, Executive Director, and *Gina Yordanova Kalcheva*, member of the Management Board and Chief Accountant of the Company.

With their signatures on the last page of the Prospectus, the persons named above as responsible for the information in the Prospectus declare that:

(1) during the preparation of the Prospectus they took all reasonable care to ensure its compliance with the requirements of the law;

(2) to the best of their knowledge, the information in the Prospectus corresponds to true facts and circumstances, it is not misleading, and contains no omissions that are likely to affect its significance, and fairly presents in all material aspects the economic, financial, and legal conditions of Sparky Eltos, as well as the rights attached to its Shares.

CONTENTS

EXPECTED TIMETABLE OF THE OFFERING

The timetable and the dates set out below are subject to change without prior notice. The dates after the announcement of the end of the subscription for New Shares are tentative, and Sparky Eltos and the Lead Manager will make an effort to ensure that the New Shares be admitted to trading on the Bulgarian Stock Exchange as soon as possible. The exact dates will be published on the internet sites of Sparky Eltos and UniCredit Bulbank, specified on page ii of this document, and BSE and FSC will be notified, and other publications made respectively, in accordance with the Bulgarian law.

Date of publication of this document ………………………….......... on or about 5 October 2007

Date of publication of the Offering Announcement in the Bulgarian *State Gazette* and a national daily newspaper [(1)] …………………….............	on or about 5 October 2007
Commencement of Rights trading on BSE and of subscription for New Shares …………………………………………………........	on or about 16 October 2007
Closing date for Rights trading on BSE ………………………..…............	on or about 29 October 2007
Closing date for subscription for New Shares by Rights holders, including persons who have purchased Rights on BSE…….....................................	on or about 31 October 2007
Ex officio auction of the unexercised rights on BSE …………….............	on or about 7 November 2007
Commencement of the subscription for New Shares by persons who have purchased Rights on the *ex officio* auction…………………………..........	on or about 12 November 2007
Closing date for payment of New Shares by all persons who have subscribed for New Shares [(2)] …………………………………...........	on or about 22 November 2007
Registration of the New Share issue and the Capital Increase of Sparky Eltos at the company register …………………………………………….	on or about 27 November 2007 [(3)]
Investors' accounts at the Central Depository credited with the New Shares…………………………………………………………............	on or about 30 November 2007 [(3)]
Commencement of trading in New Shares on BSE ………………..............	on or about 17 December 2007 [(3)]

(1) At least 7 days before the commencement of accepting orders for subscription of the New Shares and the commencement of Rights trading on BSE

(2) In accordance with the terms and conditions of the subscription, any subscription of New Shares shall be invalid if their Issue Price has not been paid by the closing date for subscription.

(3) The above dates are specified upon the presumption that: (a) the deadlines in the timetable are strictly observed; and (b) the procedures before the relevant institutions are carried out in the shortest possible terms in accordance with their practice. The exact date may fall a few or more days after the date indicated.

SUMMARY

This section should be read as an introduction to the Prospectus and any decision on investment in the Shares should be based on a consideration by the investors of the Prospectus as a whole. The investors, in particular the foreign investors, should take into account that in the event that a claim regarding the contents of the Prospectus is brought before the court, they might have to bear the costs of translating the Prospectus when the legal proceedings are instituted. The persons who have prepared this section, including its translation, are liable for damages only if the information its contains is misleading, inaccurate, or inconsistent when read together with the other parts of the Prospectus.

Business Operations Review

Sparky Eltos is the only producer of power tools in Bulgaria. The Company's product structure comprises about 100 types of professional eletric tools including various modifications of drills, angle grinders, hammers, routers, and saws. Sparky Eltos has its own centre for new product development and all articles produced by the Compamy at present are a product of own development. Sparky Eltos sells its products on the domestic market and exports to more than 70 countries.

Strategy

The main strategic goal of the Company is to maintain its leading position on the power tools market in Bulgaria and to continue to increase sales on the Bulgarian and the international markets via:

- Sustained quality enhancement;
- Increased production effectiveness and sales profitability;
- Wider product range.

The Company has its own development unit and a testing laboratory, the main task of which is to develop and launch new models, and to continually enhance the quality and the functionality of the existing ones while keeping track of the market requirements and the most recent tendencies in power tool production.

In response to the continually increasing production expenditure, including prices of materials, power, fuels, and transport, Sparky Eltos takes measures to optimize production focusing on the more profitable professional power tools, including cordless professional power tools with lithium-ion batteries.

In view of the Company's expectations for increased interest in and accelerated growth rates of cordless tools sales on a world scale, Sparky Eltos is planning to implement and launch into production such articles.

Summary of Historical, Financial, and Operating Information

Data from the Company's income statement are presented below.

	As of 30 June		As of 31 December		
	2007	2006	2006	2005	2004
			(BGN in thousands.)		
Operating income					
Sales	23,567	21,083	49,019	40,393	40,969
Other income	438	474	697	1,170	904
	24,005	21,557	49,716	41,563	41,873
Operating expenses					
Materials	16,320	14,475	33,919	29,245	29,939
External services	837	881	2,087	1,946	2,006
Depreciation	2,598	2,299	4,691	4,350	4,442
Wages	3,795	3,416	7,112	6,027	5,313
Other expenses	610	436	1,129	1,078	695

Adjustments	(4,142)	(918)	(2,553)	(3,504)	(1,645)
	20,018	20,589	46,385	39,142	40,750
Operating profit	3,987	968	3,331	2,421	1,123
Net interest expenses	(757)	(810)	(1,953)	(1,880)	(1,761)
Other financial income/(expenses)	(171)	(86)	(267)	(331)	743
Profit before tax	3,059	72	1,111	210	105
Tax	-	-	(182)	(113)	(91)
Profit after tax	3,059	72	929	97	14

Data from the balance sheet of Sparky Eltos are presented below.

	As of 30 June	As of 31 December		
	2007	**2006**	**2005**	**2004**
		(BGN in thousands.)		
Assets				
Non-current assets				
Property, plant, and equipment	55,225	39,567	38,112	34,947
Intangible non-current assets	293	294	112	52
Long-term financial assets	17	17	12	12
Deferred tax assets	2	2	8	15
Total	55,537	39,880	38,244	35,026
Current assets				
Material reserves	26,559	21,210	18,516	13,576
Receivables from related enterprises	2,361	19	8,573	13,492
Receivables and advance payments	768	6,318	2,177	7,777
Cash	1,435	219	128	87
Current financial assets	3	3	2	5
Total	31,126	27,769	29,396	34,937
Total assets	**86,663**	**67,649**	**67,640**	**69,963**

Results from Operations and Prospects

After 31 December 2006 the activity and operations of Sparky Eltos continue to develop in an upward trend, as expected by its directors.

As member of the European Union Bulgaria faces new challenges, including growing competition in a number of sectors of the economy and changing regulatory requirements. The directors of Sparky Eltos believe that the Company and the Group are ready as a whole to face these challenges and to take advantage of the new opportunities that arise.

By a decision of the Lovech District Court No 810 of 06.07.2007 the capital increase of the Company from BGN 2,000,000 to BGN 14,000,000 was entered into the register. The increase was made in accordance with a decision of the General Meeting of the Shareholders of Sparky Eltos of 15 June 2007 to increase the capital under the terms and conditions of Art. 197, para. 1 and Art. 246, para. 4 of the Company Act via a transformation of profit for 2006 and the Company's reserves into equity, via the issue of 12,000,000 new registered dematerialized voting shares and a nominal value of BGN 1 each. The New Shares are distributed among the shareholders in proportion to their interest in the capital prior to the increase, and each shareholder receives 6 new shares for 1 of their existing shares.

By a decision of 30 July 2007, the Management Board of Sparky Eltos made resolved to launch a new range of cordless professional power tools with lithium-ion /Li-Ion/ batteries. This type of batteries is becoming ever more widely used in power tool production in recent years. It is environmentally friendly - an advantage of particular interest to the management of Sparky Eltos. Production of nickel-cadmium /Ni-Cd/ batteries that have been used predominantly until now will be discontinued in 2010 at the latest due to the harmful cadmium.

The management of Sparky Eltos has undertaken this process because it expects a growth in sales of cordless tools on a world scale, and it expects this tendency to remain within the same parameters in the next 5-8 years as well.

The Offering in Brief

Sparky Eltos has made a decision to increase its capital via the issue of up to 2,800,000 New Shares for public subscription under the terms and conditions of this Prospectus. The Capital Increase shall be deemed successful if no less than 2,280,000 New Shares are subscribed for. The Lead Manger UniCredit Bulbank has agreed to use its best endeavours to promote the Offering and to provide assistance to international and local investors in the subscription for New Shares. The Lead Manager will accept and/or manage the acceptance of orders from investors for the subscription for New Shares. Sparky Eltos intends to use the net proceeds from the Offering of New Shares to finance the Company's investments and operations, in particular modernization of production and enhancement of capacity, including enhancement via the start of a new range of cordless professional power tools, modernization of a foundry for magnesium, aluminum, and other special alloys, and assembly automation. The funds shall also be used to make production significantly more environmentally friendly, to decrease the Company's leverage, as well as for working capital. The New Shares will be offered publicly only in the Republic of Bulgaria, and Bulgarian and international investors will be able to participate in the offering on an equal basis. The Shares offered are addressed to investors outside the United States under the terms and conditions of Regulation S on the implementation of the US Securities Act.

Risk Factors

Investment in New Shares is related to risks, including risks pertaining to the dependency of the financial condition and results of the operations of Sparky Eltos, the growing competition in the Bulgarian economy, the dependency on the members of the Management Board of Sparky Eltos and the employees of key importance, as well as the fluctuations in the market price of the Shares. For more information about these and other risk factors that investors should take into account, see *Risk Factors*.

THE OFFERING

Issuer	Sparky Eltos AD
Majority Shareholder	Sparky Group AD Immediately before the Offering Sparky Group owns approximately 79.93% of the shareholder's equity of the Company according to the Central Depository register of shareholders, see. *Principal Shareholders*. Immediately after the Offering and in case it does not subscribe for New Shares in the Offering, the Major Shareholder will own approximately 66.6% in total of the shareholder's equity of the Company.
Risk factors	For an outline of certain risk factors affecting Sparky Eltos and the Shares, see *Risk Factors*.
Shares, including New Shares	The shares are ordinary dematerialized shares in the Company's capital, with a nominal value of BGN 1 each. For more information, see *Description of the Shares and Applicable Bulgarian Legislation*.
Issue Price	BGN 16.00 (sixteen Leva) per one New Share.
The Offering	A public offering in Bulgaria of 2,800,000 New Shares from the Capital Increase of Sparky Eltos, as well as an offering for trade on BSE of the Rights to subscription for the New Shares. The New Shares and their corresponding Rights are being offered for sale outside the United States in compliance with Regulation S. In accordance with a Mandate Agreement signed with the Company, the Lead Manger has agreed to use its best endeavours to promote the Offering and to provide assistance to international and local investors in the subscription for New Shares. The Lead Manager will accept subscription orders from investors and will effect other procedural actions required by Bulgarian law in relation to the Capital Increase.
Capital Increase	The Capital Increase of Sparky Eltos via a public offering for the subscription of 2,800,000 New Shares, voted by the Management Board on 29 June 2007 and 9 August 2007, according to the authorization by the Articles of Association of Sparky Eltos. The Management Board has defined a minimum of 2,280,000 New Shares, the issuance of which shall be considered a successful Capital Increase of the Company, and which also constitute the minimum number of New Shares offered for subscription. The existing shareholders of the Company possess by virtue of law preemptive rights to subscribe for the respective number of New Shares, proportionate to the number of shares held by them prior to the Capital Increase, against payment of the Issue Price. These preemptive rights are incorporated in

	securities (Rights) the existing shareholders are entitled to, which can be sold or exercised by subscription for New Shares. In the Offering, one New Share can be subscribed for against 5 (five) Rights. If the existing shareholders do not wish to subscribe for New Shares against part or the entire number of Right they possess, they can offer for sale the number of Rights they will not exercise by subscription within the time limits defined below. Any Rights not exercised by subscription by the end of the first stage of the subscription procedure shall be placed for sale on an auction organized *ex officio* on BSE. On the other hand, Investors wishing to subscribe for New Shares who are not existing shareholders in Sparky Eltos, or are shareholders who wish to subscribe for additional New Shares exceeding their preemptive right, can purchase Rights on BSE within the Rights trading period and/or on the *ex officio* auction if and to the extent to which Rights are offered for sale on BSE.
Subscription period..............................	Commences on or around 16 October 2007, ends on or around 22 November 2007. For more details about the subscription stages, trading in Rights, and payment for New Shares, see *Expected Timetable of the Subscription* and *Subscription and Sale*.
Issue Price payment deadline................	On or around 22 November 2007
Lead Manager	UniCredit Bulbank AD
Number of Shares immediately before the Offering	14,000,000 Shares
Number of Shares after the Offering .	16,800,000 Shares
Share transfer restrictions …………..	Share transfers will be subject to certain restrictions. For more details, see *Subscription and Sale – Selling Restrictions.*
Voting rights and ownership limitations	Shareholders make decisions at a General Meeting of the Shareholders by voting. Each Share gives right to one vote. The decisions of the General Meeting of the Shareholders are taken by a simple or qualified majority by the Shares whose holders are present at the meeting or are represented by a proxy. As of the date of this document, the Articles of Association of Sparky Eltos does not contain any restrictions as to the number of Shares or voting rights that can be held by any one or more persons. For more information, see *Description of the Shares and Applicable Bulgarian Legislation – Meetings of Shareholders.*
Use of proceeds	Sparky Eltos intends to use the net proceeds form the Offering of New Shares to finance the investments and the operations of the Company, in particular to modernize

	production and enhance capacity, including via the launch of a new range of cordless professional power tools, modernizing a foundry for magnesium, aluminum, and other special alloys, and implementing assembly automation. The proceeds will also be used to make production significantly more environmentally friendly and to reduce the Company's leverage, as well as for working capital.
Delivery of New Shares	If the Offering is successful, UniCredit Bulbank will provide Sparky Eltos with a list detailing the number of New Shares subscribed and paid for by each person, which will be submitted by the Company to the Company Register and the Central Depository. After the Capital Increase and the New Shares are entered in the Company Register, on or around 23 November 2007 the Central Depository will register the entire issue of New Shares and will open new accounts or credit the existing accounts of the investors with the New Shares they have subscribed and paid for. The shares will be allocated to the investor's account with the investment intermediary that has serviced the exercise of the investor's Rights to subscription.
Lockup Agreements ……………….	The Company and the Majority Shareholder have entered into Lockup Agreements, under which the Majority Shareholder declares it will not, for a period of 6 months following the date of entry of the Company's Capital Increase into the Company Register, directly or indirectly: (a) offer, pledge, sell, sell options, or come to an agreement to sell, provide an option, right or warrant for purchase, deposit into a depository institution or otherwise transfer or alienate Shares or securities that can be converted to or exercised or exchanged for Shares, or (b) conclude swap or other agreements or transactions, which transfer, fully or partially, directly or indirectly, the economic risk of ownership of the Shares, regardless whether the swap or other transactions described in (a) and (b) above are executed by means of a delivery of Shares or other securities, in cash or otherwise. Sparky Eltos, on its part, undertakes for a period of 6 months not to distribute, issue or come to an agreement to issue Shares or securities specified in para. (a) above.
Admission to trading..	Currently, Shares of Sparky Eltos are being traded on the Official Market of the Bulgarian Stock Exchange under the stock symbol ELTOS. Immediately after the Capital Increase and the New Shares are entered in the company register and the registers of Central Depository AD (**Central Depository**) and FSC, an application for admission to trading of the New Shares on the Official Market shall be filed with BSE. The trading in New Shares is expected to commence on or around 17 December 2007. The price of the Shares as they are traded on the Bulgarian

	Stock Exchange will be quoted in BGN. Transactions in shares on the Bulgarian Stock Exchange will be settled through the Central Depository on a T+2 basis, payable in BGN.
Law / Jurisdiction ….	Bulgarian law / Bulgaria

RISK FACTORS

Prior to investing in Sparky Eltos Shares, potential investors should carefully consider the risk factors laid out in this section, in addition to the other information contained in the Prospectus. If any of the risks described below materializes, this could have a significant adverse effect on the activity of Sparky Eltos, on the results from its operations, or on its financial condition. If this leads to a decrease in the market price of the Shares, investors may lose some or all of their investments. The risks and uncertainties described below are not the only ones that face Sparky Eltos. Additional risks and other uncertainties, which at present are not known or are considered negligible may also have significant adverse effect on the activity of Sparky Eltos, on the results from its operations, or on its financial condition. Potential investors should read this document in full and not rely only on the information shown in this section.

Risks Related to the Operations and Structure of the Company

The Company may choose inadequate market strategy

The future profit and the economic value of the Company depend on the strategy chosen by the managing team of the Company and its subsidiary companies. The choice of an inadequate market strategy may result in losses or opportunity cost. The Company strives to manage the strategic risk by continuously monitoring the implementation of its strategy and results in order to react as quickly as possible should any changes in the strategy be necessary. Inadequate or delayed changes in the Company's strategy could have a significant adverse effect on its activity, its operating results, or its financial condition.

Most of the activities of the Company are carried out in a highly competitive environment

Production and sale of power tools is a highly competitive business with several prominent multinational producers that the Company competes with on certain markets. All the international competitors of the Company have significantly larger financial, human, technical, and marketing resources. The factors that determine whether consumers will chose the Company's products include price, product quality, after-sale and post-warranty servicing, and reputation.

Therefore there is no guarantee that the Company will continue to maintain its competitive position in the future.

Force majeure events such as adverse climate changes, accidents, and terrorist acts may greatly affect the Company's business.

Abrupt climate changes and natural disasters in certain geographic regions representing important markets for the Company may have a negative effect on the construction rates, which may affect the sales of the Company's production.

Compliance with environmental legislation requires constant expenses and commitment on the part of the Company and failure to comply with legal obligations may result in significant sanctions and discontinuation of activities.

The environmental laws of the Republic of Bulgaria require that companies take a number of measures regarding the prevention, control, and reduction of various types of environmental pollution. The Company maintains a policy of strict compliance with all legal obligations and restrictions related to environmental protection, which requires constant expenses including expenses on planning, monitoring, and accountability, on bringing facilities into conformity with the required standards and norms and on maintaining that conformity. Regardless of actions undertaken, if the Company is determined to be responsible for causing environmental damage, it shall have to pay penalties and fines, which may significantly affect its financial condition and operating results.

The Company may not succeed in financing the investments it has planned

The Company's strategy requires significant investments in production modernization, capacity enhancement, implementation of a new range of cordless professional power tools, modernization of a foundry for magnesium, aluminum, and other special alloys, significant improvement with regard to making production more environmentally friendly, assembly automation, etc. In case of an adverse economic situation and the occurrence of other adverse events an additional financing of these costs may be needed without sufficient certainty that such external financing will be possible at conditions that are acceptable for the Company. The Company may have to reduce its planned capital expenditure and investments, which would have an adverse effect on its operating results and financial position.

The Company's financial results depend on the prices of the main raw and other materials needed for production

The company's financial condition and the results form its activity are influenced by the market prices of raw and other materials, including electric power, fuels, etc, which in recent years tend to rise. Main raw and other materials for the Company are polyamide, dynamo sheet iron, aluminum, magnesium, various types of steel. An increase in the market prices of some of these products would have an adverse effect on the results from the Company's operations.

Interest rate risk

The Company finances its operations with borrowed funds from banks and other financial institutions. The majority of the contracted interest rate levels are tied to a floating basis like EURIBOR. A significant increase in the size of the basis would result in additional interest costs leading to less favourable financial results.

Currency risk

Around 7 % of the materials are purchased by the Company in USD. An appreciation of the Dollar against the Euro would, although not so significantly, lead to a higher cost of production.

General Risks

Emerging Markets

Investors in emerging markets such as Bulgaria should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. In addition, adverse political or economic developments in other countries could have a significant negative impact on, among other things, Bulgaria's GDP, foreign trade and economy in general. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, an investment in the Shares is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors should also note that a feature of emerging markets is that they are subject to rapid change and the information contained in this document may become outdated relatively quickly.

Risks relating to the Shares

Risks relating to the Bulgarian securities market

There may be less information available in the Bulgarian securities market than is available on companies in other securities markets.

There is a difference in the regulation and monitoring of the Bulgarian securities markets, and the activities of investors, brokers and other participants, compared with markets in Western Europe and the United States. The Financial Supervision Commission is responsible for disclosure and other regulatory standards for the Bulgarian securities markets. The Financial Supervision Commission monitors compliance with laws, and issues regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Bulgarian companies than is regularly made available by public companies in other securities markets. This could affect the market for the Shares.

The Bulgarian Stock Exchange is substantially smaller and less liquid than securities markets in certain other countries

The Bulgarian Stock Exchange is substantially smaller and less liquid than securities markets in certain other countries, such as those in the United States or the United Kingdom.

As of 30 June 2007, equity securities representing 360 companies and a market capitalisation of approximately BGN 20.78 billion were registered for trading at the Bulgarian Stock Exchange. Of that, equity securities representing 344 companies were registered for trading on the Unofficial Market and represented 75.38% of the total equity market capitalisation at 30 June 2007 and 75.8% of the BSE's trading volume in equities during the period from 1 January 2007 to 30 June 2007. The equity securities representing the ten largest companies registered for trading on the BSE represented 54.86% of the total equity market capitalisation at 30 June 2007 and the volume traded shares from these ten issues represents 38.44% of the total trading volume on the BSE for the period from 1 January 2007 to 30 June 2007.

Accordingly, a very small number of companies represent the large majority of the market capitalisation and a significant part of the trading volumes of the Bulgarian Stock Exchange. This low liquidity also leads to other complications, such as excessive volatility, with the market arguably also vulnerable to speculative activity because liquidity is occasionally so low that prices can be manipulated by relatively small trades. Consequently, there is no guarantee that the Shares will be actively traded, and if they are not, this is likely to increase price volatility.

Any additional equity financing may be dilutive to the shareholders of Sparky Eltos

Sparky Eltos may issue additional Ordinary Shares in subsequent increases of capital in the future. The Company is required under Bulgarian law and Stock Exchange regulations to offer any such Ordinary Shares to existing shareholders on a pre-emptive basis. Nevertheless, existing shareholders may choose not to participate in such future issues of Ordinary Shares, which would dilute their existing interest in Sparky Eltos.

Substantial future sales of Shares could affect their market price

If a substantial number of the Shares are offered for sale, the trading price of the Shares may be depressed. Sales of additional Shares on the public market following the Offering could adversely affect the market price of the Shares. Some of the Shares in the Company, namely the Shares held by the Majority Shareholder Sparky Group are subject to a Lockup Agreement, and a similar agreement has been entered into by the Company – see *Subscription and Sale – Lockup Agreements*. After the end of the period in which sale is prohibited under the aforementioned Lockup Agreements, all shares may be sold on the Bulgarian Stock Exchange, and the Company will be free to take decisions regarding subsequent capital increases.

Sales of substantial amounts of Shares, or the perception that these sales could occur after the end of the prohibition period under the Lockup Agreement and the release of the Majority Shareholder of the prohibition to dispose of shares, could adversely affect the prevailing market price of the Shares.

There is no guarantee that cash dividends will be distributed to the shareholders

Sparky Eltos has not declared, recommended, paid or made any dividends or other distribution in respect of its share capital, but has chosen to use retained profits, generated during the years, to finance its growth. Any future payment of dividends will depend upon the level of Sparky Eltos's earnings and cashflow, as well as the Company's expenditure and investment plans and the intentions of the principal shareholders.

Sparky Eltos is controlled by the Majority Shareholder and in case it undertakes certain actions, which are not in the best interest of the remaining shareholders, the value of the Shares may decrease

After the Capital Increase Sparky Group will continue to have the possibility to exercise decisive influence upon most of the questions, resolved by the General meeting of shareholders, including appointment and dismissal of members of the Supervisory board, payment of dividends, conclusion of significant transactions (in which the Majority Shareholder is not an interested party). The control upon the Company, exercised by the Majority Shareholder, may delay or prevent change of control upon Sparky Eltos, prevent merger or other business combination with the participation of the Company.

Risks relating to Bulgaria

Political Risks

Since 1989, Bulgaria has pursued a program of political and economic structural reform designed to establish a free market economy through the privatisation of state enterprises and deregulation of the economy.

The current Bulgarian government was inaugurated in Parliament on 16 August 2005. The governing coalition is one of the most fragmented in recent history and was not finalised until almost two months after the election. The prime minister is Sergey Stanishev, leader of the Bulgarian Socialist Party (the "**BSP**"), who had failed to form a government under the mandate of the BSP several weeks earlier. The BSP is the main partner in the governing coalition and holds eight of the seventeen ministries; the other partners are the former ruling party National Movement Simeon II and the ethnic formation Movement for Rights and Freedoms. Bulgaria was invited to join the North Atlantic Treaty Organisation (**NATO**) at the NATO summit in Prague on 22 November 2002. On 18 March 2004 the Bulgarian Parliament ratified the North Atlantic Treaty and Bulgaria was officially recognised as a member of the alliance on 29 March 2004.

Bulgaria joined the European Union (**EU**) in 2007. The final Monitoring Report of the European Commission on Bulgaria was released on 26 September 2006 with a membership recommendation and on 17 October 2006 the European Council officially approved Bulgarian membership of the EU on 1 January 2007. However, the European Commission will continue to keep a watchful eye on how Bulgaria carries out its commitments with regard to implementing reforms, notably putting into practice an enhanced monitoring system to oversee whether Bulgaria complies with the terms of its accession treaty. If supervision shows that Bulgaria does not meet the requirements of the EU concerning the transparency of the spending of public resources, fighting corruption, the efficiency and independence of the judicial system, as well as food safety, there is a significant risk that protective clauses in the sphere of the internal market, internal affairs and the judicial system might be activated later on, and some of the subsidies and transfers from the Eurofunds may be reduced or cut off. For more information, see *The Republic of Bulgaria - NATO and European Union Accession*.

Bulgaria's accession to the EU legitimates the economic reforms that have been undertaken in the name of the country's integration to the Union. The future growth of the economy, however, will continue to depend on the political will to carry on with economic reforms and apply the best market practices of the EU. The government's ability to implement reforms, in turn, is conditional on the extent to which the members of the government can continue to co-operate in promoting a common agenda. No assurance can be given that a change of administration will not result in a significant and rapid change in the political and economic conditions in the country which may have a materially adverse effect on Sparky Eltos's business, results of operations and financial condition. For more information, see *The Republic of Bulgaria - Political Overview*.

The current Bulgarian political system is vulnerable to economic hardship, widespread dissatisfaction with reform and EU membership due to unrealistic expectations, as well as social instability and changes in government policies, organized crime and corruption, any of which could have a materially adverse effect on Sparky Eltos's business, results of operations and financial condition. The next scheduled Parliamentary elections are due in 2009.

Economic Risks

Until 1989, the Bulgarian economy had been administered by the central authorities. Since the end of Communist rule in 1989 successive governments have implemented policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditure and subsidies to state-owned enterprises, privatising state-owned enterprises, reforming the tax and bankruptcy systems, introducing legal structures designed to facilitate private, market-based activities, stabilising the currency and encouraging foreign trade and investment. The scope, speed and nature of any future economic reforms remain uncertain. Certain measures intended to improve the country's economic condition have been and are expected to remain unpopular. Accordingly, levels of popular and political support for the government have tended to vary. For more information, see *The Republic of Bulgaria - The Bulgarian Economy*.

Continued economic reform will also depend in part on presidential support for the reform program. The current president, re-elected at the last presidential elections, held in October 2006, is a former leader of the BSP and a fallout with the BSP-led government seems unlikely. For more information, see *The Republic of Bulgaria - Political Overview*.

Like other transitional countries, Bulgaria runs trade and current account deficits. Bulgaria has an open-type of economy and its development is directly influenced by international market conditions. The country is an importer of crude oil; accordingly, increases in oil prices reduce the competitiveness of the Bulgarian economy, and dependence on oil imports subjects the economy to additional US Dollar currency risk. A huge current account deficit, combined with the inability of the Bulgarian National Bank to pursue appropriate monetary policy because of the constrictions of the Currency Board, may put pressure on macroeconomic stability. The privatisation of state-owned enterprises is essentially complete and future capital inflows will depend on the stability of the economic and institutional environment.

Sparky Eltos's business, the results of its operations and its financial condition largely depend on the condition of the Bulgarian economy, which in turn affects loan growth, interest costs and customers' ability to meet their obligations on time. Any negative change in one or more macroeconomic factors, such as interest rates, which are influenced by Eurozone interest rates by virtue of the Currency Board arrangements that peg the Lev to the Euro, inflation, wage levels, unemployment, foreign investment and international trade, could have a materially adverse effect on Sparky Eltos's business, results of operations and financial condition.

Businesses in Bulgaria have a limited operating history in free market conditions. Accordingly, when compared to the companies, functioning in the countries with a developed market economy, such businesses are characterised by a lack of management experienced in responding to the market, limited capital resources with which to develop their operations, and low labour efficiency. In addition, Bulgaria has a limited infrastructure to support a market system.

Legal Risks and Enforcement of Judgments

Bulgaria's legal system is in the process of transformation, matching that of the developing market economy of Bulgaria. The practice of the judiciary and administration remains problematic and parties seeking to rely on the Bulgarian courts for effective redress in respect of a breach of law or contracts, or in an ownership dispute, may find that it is difficult to obtain. The majority of Bulgarian law has been brought in line with that of EU member states, although Bulgarian law does continue to evolve, occasionally in ways that do not always coincide with the development and application of the EU's legislation, as well as with the market developments. As a result, ambiguities and inconsistencies are existing and also an investment risk that would not be a consideration when investing in a company located in a jurisdiction with a more developed legal system. However, trade legislation has become relatively modern and complete in the last five years. The expected introduction of new legislation in areas such as corporate and securities laws, as well as amendments in the current legislation aimed at achieving full compliance of Bulgarian laws with EU regulations following Bulgaria's accession to the EU as of 1 January 2007, is expected to contribute to the more consistent development of civil and trade legislation in the near future.

There are, as a result, two major legal threats to the development of the legal system in Bulgaria: (a) the possible failure of the development of the Bulgarian legal system to keep pace with the EU's legal system and the rapidly developing commercial practices may create uncertainties; and (b) flaws in the legal infrastructure may result in doubt arising in relation to corporate actions, compliance and other matters, performance of which may be taken for granted in other jurisdictions.

Exchange Rates and the Currency Board

Since 1997, a Currency Board arrangement has been in place under which the Bulgarian currency, the Lev, has been pegged, initially to the Deutsche mark and subsequently, on creation of the Eurozone, to the Euro. Maintenance of the Currency Board arrangement is considered to be a critical element of economic reform in Bulgaria and requires continuous political support for non-inflationary policies. The rigidity of the Currency Board which rules out both devaluation and independent monetary policy may not be responsive to the future needs of the Bulgarian economy. It is widely expected that the Currency Board arrangement will be kept until Bulgaria joins the Euro, but there can be no assurance whatsoever that this will be achieved.

Any significant devaluation of the Lev could have a materially adverse effect on the customers of Sparky Eltos and, as a result, on the Company’s business, results of operations and financial condition. For more information on the Currency Board arrangement, see *The Republic of Bulgaria – The Bulgarian Economy – Currency Board Arrangement*.

Taxation

Taxes payable by Bulgarian companies include withholding taxes, local (municipal) taxes and fees, corporate profit tax, value-added tax, excise duties, export and import duties and property taxes. The taxation system in Bulgaria is still developing, which may result in inconsistent enforcement at both state and municipal levels.

Investors should also be aware that the value of an investment in the Shares may be adversely affected by changes in, and the application and interpretation of, current tax laws and regulations.

Bulgaria's accession to the European Union may result in increased competition and additional and more onerous regulations

Accession to the European Union could result in increased competition for Sparky Eltos as new competitors from other member states may enter the market in Bulgaria, benefiting from the single EU passport and merely having to notify FSC. It could also result in decrease in the incomes and profit of the Company. On other side, compliance with European Union competition laws and other regulations is required and enforced, as any changes in the law could require Sparky Eltos to comply with additional and more onerous regulations and could have a materially adverse effect on the Company’s business, results of operations and financial condition.

USE OF PROCEEDS

The net proceeds of Sparky Eltos from the Capital Increase are expected to amount to BGN 43.9 million after deducting the expected costs of the Offering, including the remuneration of the Lead Manager.

Sparky Eltos intends to use the net proceeds from the Offering of New Shares to finance the investments and operations of the Company, in particular to modernize the production and enhance capacity, including the launch of a new range of cordless professional power tools, modernization of a foundry for magnesium, aluminum, and other special alloys, and assembly automation. The funds will be used also to carry out a significant improvement of production to make it more environmentally friendly, and to decrease the Company's leverage, as well as for working capital. With the funds collected through the issuance, Sparky Eltos is planning to finance a four-year investment scheme to increase the capacity of the Company, amounting to BGN 25 million. If Sparky Eltos manages to raise the necessary funds through this issuance, it will be able to implement its investment scheme in shortened terms within 15-18 months.

CAPITALISATION AND INDEBTEDNESS

The Following information presents the capitalization of the Company as of 30 June 2007, as derived from the financial statements of Sparky Eltos. This information should be read in conjunction with the audited financial information of the Company and any other related information included in this document.

	30 June 2007 (BGN in thousands)
Total current liabilities (1)	**12,466**
Current liabilities to related persons	106
Current liabilities to bank and non-bank institutions	4,318
Current part of financial lease liabilities	1,217
Liabilities to suppliers and clients	5,037
Tax liabilities	254
Liabilities to employees	1,172
Liabilities to insurance institutions	195
Other liabilities	167
Total non-current liabilities (2)	**24,506**
Non-current liabilities to bank and non-bank institutions	20,767
Non-current part of financial lease liabilities	3,739
Shareholder's equity	**49,691**
Share capital	14,000
Reserve related to subsequent revaluation of assets and liabilities	32,120
Other reserves	512
Current profit (loss)	3,059
Total	**86,663**

(1) With maturity within a year
(2) Excluding long-term liabilities with maturity within a year

Source: Sparky Eltos

On 24 July 2007 Annex №3 to Revolving Bank Loan Agreement №217/19.10.2004 with UniCredit Bulbank AD was signed, which increases the allowed loan amount by EUR 2 million from EUR 4.4 million to EUR 6.4 million. With the exception of the circumstance under the preceding sentence, there has been no significant change in the capitalization and long-term indebtedness of the Company after 30 June 2007.

The Directors of Sparky Eltos believe that the working capital of the Company (i.e. the ability of the Company to access cash and other liquid sources for the purpose of timely repayment of its current liabilities) is sufficient at this stage and for a period of 12 months as of the date of the present document.

For more information on loans, financing, and security provided, see *Material Indebtedness*

DILUTION OF SHARE VALUE

As of 30 June 2007 the net tangible book value of Sparky Eltos is about BGN 49.691 million. The **Net tangible book value** is calculated on the basis of the consolidated balance sheet of the Company as:

- Total carrying value of assets of Sparky Eltos less the value of goodwill; *less*
- The amount of total liabilities of the Company.

As of 30 June 2007 the net tangible book value per Share of Sparky Eltos amounts to around BGN 3.55. The **Net tangible book value per Share** is:

- The net tangible book value of the Company; *divided by*
- The number of Shares issued.

The **Dilution of the net tangible book value of a Share** is:

- The Issue Price of a New Share from the Capital Increase; *less*
- The net tangible book value per Share of Sparky Eltos immediately after issuing the New Shares.

If we assume that the New Shares were issued as of 30 June 2007 and after deducting the expenses on the Offering, the net tangible book value of Sparky Eltos as of 30 June 2007 would have been BGN 5.57 per Share. The calculations have been made on the basis of the issue of 2.8 million New Shares at Issue Price of BGN 16.0 per New Share.

These calculations show an immediate increase of the net tangible book value per Share to the benefit of the existing shareholders of Sparky Eltos amounting to BGN 2.02, and immediate dilution of the net tangible book value per Share for the investors who acquire New Shares, amounting to 65.19% respectively.

The table below provides a summary of the calculations made:

	BGN, except %
Issue Price of a New Share..	16.00
Net tangible book value per Share as of 30 June 2007……..	3.55
Increase of the net tangible book value per Share as a result of the Capital Increase, if we assume that the new Shares were issued as of 30 June................	2.02
Net tangible book value per Share immediately after the Capital Increase if we assume that the new Shares were issued as of 30 June 2007..	5.57
Dilution of the value of a Share for the investors who have acquired New Shares in the Offering...	65.19%

Source: Sparky Eltos

DIVIDENTS AND DIVIDENT POLICY

Since its establishment Sparky Eltos has adopted a policy of reinvesting earnings into the long-term growth and development of the Company instead of paying out dividends or making other distributions to shareholders. In view of the good prospects and the continuing development of the Company, Sparky Eltos considers changes in dividend policy unlikely in the immediate future.

In the event that Sparky Eltos is unable to use its capital effectively for growth or acquisitions, the Company will consider paying dividends and/or redeeming shares in order to maximize profitability for its shareholders. Any decision on a future distribution of profit to the shareholders of Sparky Eltos will be taken by the General Meeting of Shareholders. For more information, see *Description of the Shares and Applicable Bulgarian Legislation*.

BUSINESS REVIEW

Business Operations Review

Sparky Eltos is the only producer of power tools in Bulgaria. The Company's product structure comprises about 100 types of professional power tools including various modifications of drills, grinders, and saws. Sparky Eltos has its own centre for new product development and all articles produced by the Company at present are a product of its own development. Sparky Eltos sells its products on the domestic market and exports to more than 70 countries.

For the year ending on 31 December 2006 the net operating income of Sparky Eltos amounts to BGN 49.716 million, in comparison to BGN 41.563 million for 2005, and BGN 41.873 million for 2004. As at 30 June 2007 the net income of the Company amounts to BGN 24.005 million, in comparison to BGN 21.557 million as at 30 June 2006, and BGN 18.990 million as at 30 June 2005.

The address of Sparky Eltos is: 9 Kubrat Str., Lovech, Republic of Bulgaria, tel. 068/ 2 35 50; e-mail: sparky_eltos@sparkygroup.com

As at 30 June the Company has over 1,300 employees.

Strategy

The main strategic goal of the Company is to maintain its leading position on the power tools market in Bulgaria and to continue to increase sales on the Bulgarian and the international markets via:

- Sustained quality enhancement;
- Increased production effectiveness and sales profitability;
- Wider product range.

Sustained Quality Enhancement

Sparky Eltos operates on a dynamic market that requires high quality, reliability, and reparability of the power tools produced. What consumers expect of the new articles is new functions, lighter weight, better power capacity, ease of operation, competitive price. At the same time, increased demand for professional power tools related to the construction industry leads to higher demands with regard to quality, productivity, and durability of the articles produced.

The Company has its own development unit and a testing laboratory, the main task of which is to develop and launch new models, and to continually enhance the quality and the functionality of the existing ones while keeping track of the market requirements and the most recent tendencies in power tool production.

Increased Production Effectiveness and Sales Profitability

Sparky Eltos believes that the detailed market research it carries out and its production in consideration of the specific needs on individual markets are the basis for its successful sales in more than 70 countries. Market variety allows for a higher optimization and, as a result, higher production effectiveness.

In response to the continually increasing production costs, including prices of materials, power, fuels, and transport, Sparky Eltos takes measures to optimize production focusing on the more profitable professional power tools, including cordless professional power tools with lithium-ion batteries. This strategy makes the Company confident that it will manage to maintain the cost of its articles within relatively unchanged limits, and to increase profit in absolute terms when increasing sales volume.

Wider Product Range

In response to the continually changing needs on the market and the increasing competitiveness, the main goal in the marketing strategy of Sparky Eltos is the development and launching of new products in short terms.

In the last three years the Company has developed and put into production and on the market 39 new models of power tools, and as of the date of this document a further ten new models are under development.

In view of the increased demand and high growth rates of cordless tools sales on a world scale (35%-40% per annum), Sparky Eltos is planning to launch such kind of articles into production.

History

Joint-stock company Sparky Eltos is the successor of the ELPROM – Lovech, a manufacturing plant set up in 1961 and specializing in the production of electric motors with a capacity of up to 630W.

The rapid advance in micro motors and small electric machines in the period 1961-1965 determined three major directions in the plant's manufacturing operations: collector micro motors for alternating current, constant current generators and asynchronous electric motors. In 1965 production of mechanic manually operated power tools with electric motors manufactured by the company built into them was launched. At the end of 1966 a license for the manufacturing of manually operated tools was purchased form AEG – Telefunken, Germany. Production of three types of drills was initially launched, and later – of angle grinders and electric wrenches.

Over the next years the Company won recognition as a leading manufacturer of power tolls for Eastern European countries. The capacities available were insufficient to meet consumer demand and in 1975 this lead to a new expansion with modernization and reconstruction. Two new licensing agreements were signed in the same year with AEG – Telefunken, and the concern participated in the design of the buildings and the specialized equipment, assisted as consultant and intermediary in the purchase of specialized equipment. Technical documentation for the production of new types of drills and angle grinders was purchased along with the license. As the project was implemented an automated computer-operated rack warehouse was introduced into exploitation. A dedicated computing center was set up and new equipment was delivered. The independent design and manufacturing of tooling equipment was made possible.

In 1986 a new expansion of the plant took place by means of implementation of automated lines by Axis-Italy for the production of rotors and stators, an automated conveyor line by Menke – Germany for the production of collectors, automatic multi-position machines by Shutte for the production of spinning parts and software-managed lathes for the processing of cage parts from aluminum and magnesium. The implementation of this equipment allowed an increase of production capacities to a level of 1,000,000 power tools per annum.

By a decision of the Council of Ministers of 1989 based on Decree 56 on the Economic Activity, state-owned company (DF) Eltos, Lovech, was established, being entered in the company register under company case 37/1989 of the Lovech District Court. By a subsequent decision of the court DF Eltos was transformed into a single shareholder joint-stock company under company name Eltos EAD. In 1996 Sparky GmbH Germany (the former name of Sparky Trading GmbH) acquired 55% of the Company's capital via cash privatization. By a decision of the Lovech District Court of 30 December 1996 a change was registered in the name of the Company from Eltos EAD to Sparky Eltos AD. Under the name SPARKY ELTOS AD a new stage in the production of Bulgarian power tools begins. As a results of investments of nearly BGN 60 million in the period 1997-2006 the production of the Company is competitive and quickly gains position on the international markets.

In 1998 Sparky Eltos was entered as a public company in the register of the Bulgarian National Securities Commission (regulator of the capital markets in Bulgaria in that period), pursuant to which the Shares of the Company were registered for trading on the Bulgarian Stock Exchange.

In 2003 Sparky GmbH sold its Shares in Sparky Eltos, amounting to 75.21% of the capital of the Company, to Sparky Group (then Sparky Bulgaria AD).

Corporate Structure

Sparky Eltos is part of the group of companies owned by the members of the Supervisory Board of Sparky Eltos Stanislav Petkov and Petar Baburkov (the **Group**).

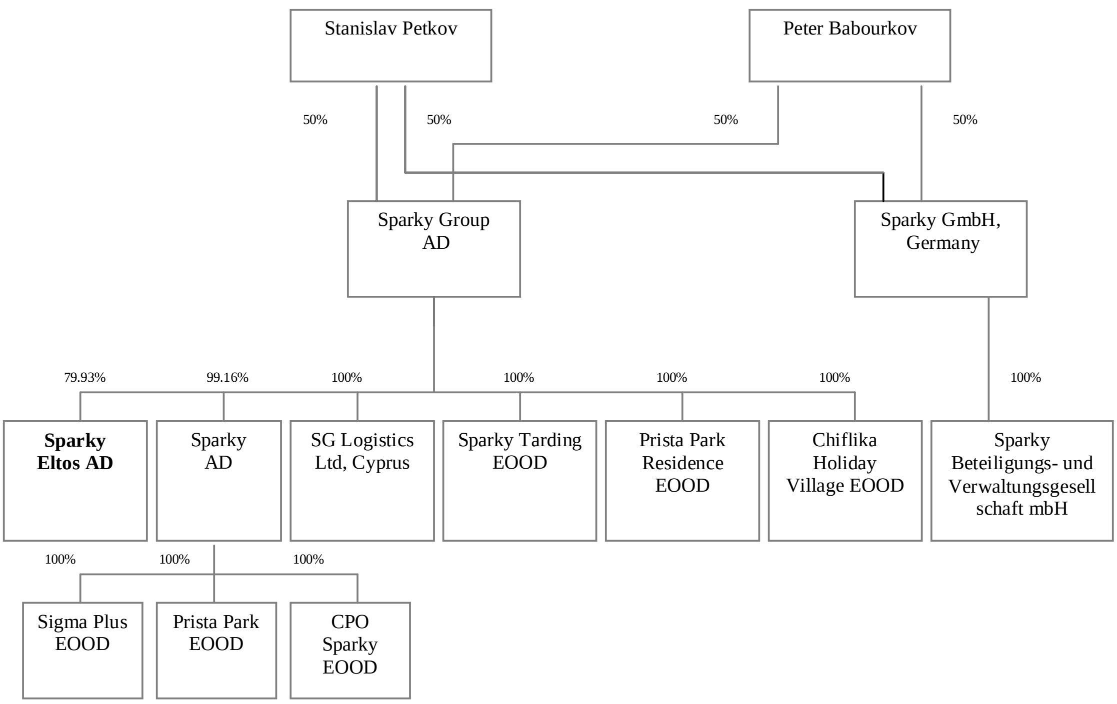
Stanislav Petkov and Petar Baburkov each have a 50 % stake in the Majority Shareholder of Sparky Eltos – Sparky Group AD, Sofia (former name Sparky Bulgaria AD) (**Sparky Group**), as well as in Sparky GmbH, Berlin, Germany.

Subsidiary companies of Sparky Group that currently operate are:

- Sparky Eltos (79.93%);
- Sparky AD, Ruse (99.16%);
- Sparky Trading EOOD, Sofia (100%);
- SG Logistics Limited, Limassol, Cypress (100%)**.**

Sparky Eltos has no subsidiary companies.

Below is a diagram of the operational companies in the Group.



Sales

Sparky Eltos sells on the domestic and foreign markets. Sales on the domestic market are organized via a distribution network in the whole country. A major domestic client is also the hypermarket chain Mr. Bricolage via Doverie-Brico AD.

Sales on the foreign market are related to the structure of the group the Issuer belongs to – foreign markets have been traditionally managed by Sparky GmbH. The major foreign markets are Western Europe, Russia, Africa, Brazil, and the Far East.

Products

The table below shows the main product categories of Sparky Eltos for the last three years, as well as towards the end of the first half of 2007, sales figures for the respective product for the domestic and foreign markets in BGN in thousands, and the percentage of the item's sales in the total sales of Sparky Eltos products for the indicated periods.

	As of 30 June		**As of 31 December**					
	2007		**2006**		**2005**		**2004**	
	Sales *(BGN in thousands)*	Share *(%)*	Sales *(BGN in thousands)*	Share *(%)*	Sales *(BGN in thousands)*	Share *(%)*	Sales *(BGN in thousands)*	Share *(%)*
Foreign market	**19,328**	**82.5**	**39,231**	**80.7**	**30,630**	**76.6**	**33,074**	**80.9**
Spare parts	1,872	8.0	2,691	5.5	1,900	4.7	3,689	9.0
Small drills	803	3.4	1,343	2.8	1,219	3.0	2,071	5.1
Large drills	1,093	4.7	4,440	9.1	4,391	11.0	5,205	12.7
Perforator	4,833	20.6	12,366	25.4	7,623	19.1	5,999	14.7
Small angle grinders	3,118	13.3	4,833	9.9	4,419	11.0	3,240	7.9
Large angle grinders	2,974	12.7	5,674	11.7	6,633	16.6	8,463	20.7
Special tools	4,532	19.3	7,248	14.9	3,932	9.8	3,914	9.6
Attachments	103	0.4	137	0.3	78	0.2	84	0.2
Other	-	-	499	1.0	435	1.1	409	1.0
Domestic market	**4,105**	**17.5**	**9,370**	**19.3**	**9,381**	**23.4**	**7,787**	**19.1**
Spare parts	740	3.2	1,390	2.9	1,425	3.6	1,433	3.5
Small drills	181	0.8	510	1.0	542	1.4	526	1.3
Large drills	612	2.6	1,165	2.4	1,326	3.3	1,020	2.5
Perforator	555	2.4	1,503	3.1	1,304	3.3	847	2.1
Small angle grinders	533	2.3	1,167	2.4	1,074	2.7	950	2.3
Large angle grinders	730	3.1	1,843	3.8	2,019	5.0	1,683	4.1
Special tools	723	3.1	1,689	3.5	1,529	3.8	1,085	2.7
Attachments	23	0.1	43	0.1	46	0.1	37	0.1
Other	8	0.0	60	0.1	116	0.3	206	0.5
Output	**23,433**	**100.0**	**48,601**	**100.0**	**40,011**	**100.0**	**40,861**	**100.0**

Source: Sparky Eltos

Supplies, Production, and Equipment

Supplies of raw materials are provided by many suppliers and the Company ensures that the process is uninterrupted and independent by choosing several suppliers of the same raw material. The Company's biggest suppliers with the respective percentage of the total raw materials and other materials are Okto 7 9%, Albis Plastik 3%, Hellenic Cables E.A. 3%, NSK Polska SP Zoo 3%, Schunk 2%, Reich GmbH 2%, Marquardt 2%, Schmolz + Bickenbach 2***%.***

The manufacturing process of Sparky Eltos is subject to strict quality and environmental control. The production process includes machine processing, founding of plastic and metal alloys, electric motor production and assembly. Quality control is carried out on 100 % of the production. The Company holds an ISO 9001 certificate, and pays special attention to work safety and environmental protection, which is evidenced by the OHSAS 18001 and ISO 14001certificates it has received.

The Company normally maintains production reserves of each basic article to cover 25 days as the finished products are sold almost immediately.

During the last three years the Company has not experienced significant interruptions of the production process for any reason.

The table below shows information on the main production facilities of Sparky Eltos:

Location	**Land** *(m^2)*	**Description**	**Premises** *(m^2)*	**Rent / ownership**
9 Kubrat Str., Lovech	117,810	6 manufacturing facilities Warehouses Administrative building Auxiliary buildings	65,800	Own

Source: Sparky Eltos

Below there is information on the non-current tangible assets of the Company used in its operations:

	As of 30 June	**As of 31 December**		
	2007	**2006**	**2005**	**2004**
		(BGN in thousands)		
Land (sites)	29,561	13,067	13,067	13,067
Buildings and constructions	6,244	6,462	6,850	7,206
Machines and equipment	10,547	11,347	10,761	7,930
Plant.............	2,342	2,353	2,185	1,829
Transport vehicles	657	402	525	575
Expenses on acquisition and liquidation of non-current tangible assets ……………………............	3,436	3,323	1,722	2,199
Other	2,438	2,613	3,002	2,141
Total	55,225	39,567	38,112	34,947

Source: Sparky Eltos

In the last three complete financial years there have been no significant changes in the non-current tangible assets of the company. During the current 2007 non-current assets owned by the Company were revalued – land, with carrying value before revaluation at BGN 13,067,000, and an increase as a result of the revaluation amounting to BGN 16, 494,000.

As of 31 December 2006 the Company has signed agreements to the amount of BGN 3,707,000 for the production of non-current tangible assets.

As of the date of this document Sparky Eltos has 14 agreements for financial leasing of manufacturing equipment with UniCredit Leasing Bulgaria EAD, HVB Leasing OOD, Hebros Leasing EAD, and Interlease EAD.

For more information regarding the manufacturing assets and property of Sparky Eltos, see below *Capital and Investment Expenses,* as well as Note 2 (Property, plant, and equipment), and 12 (Financial lease liabilities) to the financial statement of Sparky Eltos for 2006, as well as the analogous notes to the financial statements of the Company for 2005 and 2004.

Capital and Investment Expenses

The total amount of capital expenses is BGN 19,290,000.

	As of 30 June	As of 31 December		
	2007	2006	2005	2004
	(BGN in thousands, except the percentages)			
Tools	182	372	1,504	678
Office equipment..	10	51	65	148
Equipment repairs…….......................................	3	656	22	787
Machines and equipment....................................	1,078	3,553	6,460	4,251
License...	27	211	82	6
Transport vehicles..	347	101	65	177
Software...				2
Safety systems………......................................			26	73
Total...	1,647	4,944	8,224	6,122

Source: Sparky Eltos

The company has adopted an investment scheme with an implementation deadline by the end of 2011, and part of the funds raised form the Capital Increase will be used to finance it:

Purpose	Investment commencement	Investment deadline	Investment cost
Equipment for the production of new cordless and standard power tools......................................	March 2007	May 2009	14,186
Enhanced work safety and health conditions…............	In operation	February 2009	770
Environmental protection..	In operation	April 2009	900
Equipment repairs and maintenance....................................	In operation	April 2009	1,780
Construction and assembly activities...................................	2008	May 2009	2,200
Enhanced capacity and production modernization….........	In operation	March 2009	3,220
Assembly equipment for a new range of cordless professional machines...	2008	March 2009	1,000
Improvement of an Enterprise Resource Planning System (ERP) and purchase and launching of a Business Process Management System (BPMS)	March 2007	2008	1,000
Program for the development of a new range of cordless perforators (in cooperation with the Technical University, Sofia) (1)	2008	2009	250
Total (investment value)..			25,306

(1) A framework agreement is to be signed with the Technical University, Sofia, on the implementation of a program for the development of a new range of cordless perforators. Under the agreement Sparky Eltos is to provide equipment and co-funding to the amount of BGN 250,000.

Source: Sparky Eltos

Competition

Main Competitors

At present around 150 million power tools are produced worldwide compared to 60 million tools ten years ago, 70% of production being concentrated in South East Asia. The construction boom both in new buildings and in repair works and refurbishment of existing buildings and housing, and the accompanying increase of the levels of power tool use by households lead to a steady growth in demand in Central and Eastern Europe, CIS, the Middle and Far East. A proof of that are the large investments envisaged by large construction materials chains such as Kingfisher, Hornbach, Praktiker, OBI, Leroy Merlin, Castorama, etc. in Central and Eastern Europe. At the same time, the increase in demand for professional power tools related to the construction industry leads to higher demands being placed on them in terms of quality, productivity, and durability.

The main competitors of the company on the foreign markets are Bosch with its professional (blue) series, Makita, DeWalt, Metabo, Hitachi. On the domestic market the main competitors are mostly Bosch and Makita with their professional series.

Since Sparky Eltos operates on a dynamic market, in order to be competitive the Company relies on the high quality, reliability, and reparability of the power tools it produces. In response to the changing needs on the market, its main marketing strategy is to develop and launch new products in short terms. What consumers expect of the new articles is new functions, lighter weight, better power capacity, ease of operation, competitive price. The Company intends to direct its investments into new equipment that will increase labour productivity and replace part of the outdated equipment with new more productive software controlled machines with lower consumption of electric power, so that one operator could service a larger number of machines. The goal is to use the same average number of employees to increase the production volume. Despite rising prices of materials, electricity, fuels, transport, etc., the Company is able to maintain the cost of its articles and to increase sales volumes and profitability in absolute terms (see *Business – Recent Developments*)

Information Technologies

Technoclass Enterprise Resource Planning System

The Company has been using the Technoclass Enterprise Resource Planning (ERP) system by L-Class OOD since 1999. Technoclass unites the information from all functions, directions, and departments of Sparky Eltos into a single database by using interconnected modules that cover all aspects of the Company's operations – from the development of a product through production and delivery preparation and planning, monitoring of the orders within the production process itself, sales and customer relationships, to reporting the results form the Company's operations.

Intellectual Property

Under the Bulgarian legislation, a trademark is protected for a term of ten years from the date an application is filed with the Patent Office, and the registration can be renewed an unlimited number of times for subsequent ten-year periods. The Company has six registered trademarks, one of which is for services and distinguishing services, and five trademarks which constitute a sign for distinguishing products. The trademarks registered by the Company are: the Eltos service mark (protected until 16 February 2016); the Elprom emblem /image/ (protected until 11 February 2008); the Elprom emblem /image/ with a registration of additional classes according to the Nice and Vienna classifications (protected until 15 February 2012); Elprom-Lovech /words/ (protected until 30 January 2014); Anti Vibration /combined/ (protected by 10 October 2016). The owner of the Sparky trademark /combined/ for the territory of Bulgaria and the Sparky trademark /combined/ under the Madrid Agreement on the International Registration of Trademarks is the Majority Shareholder in the Company Sparky Group. The ownership of the trademarks was acquired under the transfer agreement between the Majority Shareholder and Fred Sparky OOD of 16 June 2007. Registration of the agreement with the Patent Office is pending, and the agreement will become effective for third parties as of the date of the registration.

Sparky Eltos registers the power tools designed for the industry, metallurgy, and construction, and produced by the Company as objects of industrial property. The Company owns patents on utility models operating on the territory of Bulgaria (8), Germany (1), Russia (1), China (1), and Hong Kong (1). Under the Patent Cooperation Treaty (PCT), two international applications have been made, which have been published for the entire world following research by the International Searching Authority, and give the Company the right to apply for protection in every country member of PCT. Another two utility models are in the process of registration – one for the territory of Bulgaria, and one European Patent. A third international application under PCT has been filed and is awaiting development.

The following of the Company's utility models have been registered with the Patent Office: bush trimming machine (bush trimmer) protected until 29 February 2010; locking mechanism for jig saws (FSPE 80/81) protected until 29 February 2010 (besides in Bulgaria, the item has been applied for and published under PCT, and applied for in Germany); router head for angle grinders (FK-30) protected until 17 November 2010; fastening unit for drilling instruments (BP-400) protected until 17 November 2010; device for starting and stopping the movement of the chain of hand saws (TRC 2000) protected until 17 November 2010; device for stretching the chain of chain saws TV 2045 (TRC 2000) protected until 17 November 2010; power tools switch (BP 240 E/241 E/ 242 E/ 243 E) protected until 2010; fixing device for back handle of power tools (M 2001/M 2300/M 2 500) protected until 03 July 2012 (besides in Bulgaria, the article has been declared protected in Russia, China, and Hong Kong); fixing mechanism for safety lid of manually operated metal cutting machines (M for all models of angle grinders) protected until 08 August 2015 (besides in Bulgaria, the article has been applied for and published under PCT). Since all utility models have been filed for registration in Bulgaria before the amendment of the Patent Act of 08 August 2006, they have been awarded patents for a term of 10 years.

Sparky Eltos has also registered industrial designs of products manufactured by the Company in Bulgaria, Germany, Russia, and China. During 2005-2006 international registrations under the Hague Agreement were made, and the markets indicated in them are: Germany, France, Italy, and Ukraine, and in one of the applications – also Hungary. As of the date of the Prospectus, 16 registrations of industrial designs are in force in Bulgaria, 5 in Russia, 3 under the terms of the Hague Agreement (with countries indicated: Germany, France, Italy, and Ukraine), one in Germany, and one in the United States.

Development

Sparky Eltos has its own development unit and testing laboratory whose main purpose is to develop and launch new models and to continually enhance the quality and functionality of the existing models, monitoring the demands of the market and the most recent tendencies in power tool production. Forty-five people are employed in development of Sparky Eltos. During the last three years the Company has developed and put into production and on the market 39 new models of power tools, and at the moment 10 more models are under development.

The table below compares the expenditure of Sparky Eltos on development with sales for the periods indicated.

	As of 30 June	**As of 31 December**		
	2007	**2006**	**2005**	**2004**
	(BGN in thousands, except percentages)			
Total expenditure on development….......	719	1,329	1,023	828
Total sales	23,567	49,019	40,393	40,969
Expenditure on development /sales ratio (%)…………………………………………	3.05%	2.71%	2.53%	2.02%

Source: Sparky Eltos

Employees

As of the date of this document Sparky Eltos has 1,288 employees on the payroll.

During the last three years the number of employees of Sparky Eltos has been gradually increasing.

Changes in the number of Sparky Eltos employees	As of 30 June	As of 31 December		
	2007	2006	2005	2004
Newly recruited ……..	107	255	240	150
Resigned……..	101	187	123	133

Source: Sparky Eltos

The following table summarizes the number of employees and staff costs of the Company for 2004, 2005, and 2006, as well as for the first half of 2006 and 2007.

	As of 30 June		As of 31 December		
Year	**2007**	**2006**	**2006**	**2005**	**2004**
Number of employees..	1,331	1,350	1,339	1,199	1,141
Staff costs (BGN in thousands)	3,795	3,416	7,112	6,027	5,313

Source: Sparky Eltos

As far as the Company is aware, some of its employees are members of a trade union. Sparky Eltos employees have never been on strike against their employers. Under the Bulgarian legislation, the Company is liable to pay a specified amount for social security and additional pension security. The amount of these contributions is determined and paid in full at the monthly salary payment.

Insurance

Insurance and Re-insurance Joint Stock Company Allianz is the priority insurer of the Company.

The property insurance of the Group covers damage on buildings, machines, vehicles, and other assets resulting from the usual risks, including fire, explosion, earthquake, and natural disasters, to a total insurance value of EUR 5.5 million for buildings, EUR 29 million for machines and equipment, and EUR 9.5 million for material reserves. The Company is also insured against loss due to discontinued operations to the amount of EUR 3 million.

Environmental Issues

The operations of Sparky Eltos fall under the regulations concerning environmental protection, health, and safety. Some Bulgarian legislative acts with significance in relation to this issue are: the Environmental Protection Act of 2002, the Protection from Harmful Effects of Chemical Substances Act of 2006, the Waters Act of 1999, the Waste Management Act of 2003, the Purity of Atmospheric Air Act of 1996, as well as many acts of secondary legislation pertaining to their implementation. The environmental legislation of the Republic of Bulgaria is as a whole harmonized in conformity with the European Union standards. Any case of failure to comply with these acts on the part of the Company may be ground for seeking civil and/or administrative liability.

The Company has created in-house rules for establishing a long-term practice with its trade partners for the compliance with and implementation of the legal requirements and standards for maximum concentration of harmful substances in products when sold on the Bulgarian and European markets. This document contains and upholds the legal requirements in the area of electric and electronic equipment (EEE), established by Directive 2002/96/EC on waste electric and electronic equipment and Directive 2002/95/EC of the European Parliament and the European Council for restriction of use of certain dangerous substances in electrical and electronic equipment.

As a producer and importer of EEE, the Company fulfils its obligations in collecting, reusing, utilizing, and recycling waste electric and electronic equipment (WEEE) via the agreement signed on 1 September 2006 with Ecobultech AD – an organization working on the utilization of WEEE, holding a permit issued in accordance with the Waste Management Act.

The Company maintains an enhanced Environmental Management System (EMS) in accordance with the ISO 14001:2004 standard and holds the necessary certificate. The Environmental Management System aims at controlling and limiting the harmful influence of the Company's operations on the environment, as well as minimizing the risk of environmental accidents. Maintaining the EMS guarantees that the Company stays informed of the legal requirements in the area of environmental legislation and how to comply with them.

With regard to the fulfillment of obligations in waste management, including hazardous waste, the Company holds a permit issued by the Regional Inspectorate of Environment and Water, Pleven, regarding the establishment of a program for managing waste-related activities. The Company has signed agreements for the sale of waste from ferrous and non-ferrous metals, recycled materials, and waste oil to be recycled and utilized as waste. The Company has signed an agreement with Ecopack Bulgaria AD, Sofia for assuming the obligation for managing waste packaging, aid it was signed in relation to the obligations the Company has as a producer and/or importer that sells packaged goods on the country's market.

No sanctions have been imposed on the Company by the competent authorities pertaining to failure to comply with existing environmental protection regulations and standards. The Company operates in accordance with the legal requirements on environmental protection. No legal proceedings have been instituted against the Company, and no complaints have been lodged, in connection to environmental issues.

Participation in European Projects

Extended Enterprise Management in Enlarged Europe Project

Sparky Eltos is one of the participants in the Extended Enterprise Management in Enlarged Europe project. The main objective of the project is to assist the active participation and joint initiatives of enterprises from Central and Eastern Europe with established West European research and innovation centres for the development of intelligent and extended products in several sectors of the European production industry, and in particular the objective is to assist the integration of original producers of equipment and suppliers in the production network.

Project for Acquiring Vocational Qualification in the Introduction of CAD/CAM Technologies and for Machine Technician, profile "Software-Managed Machines"

The objective of the project is to enhance the competitive power and sustained development of Sparky Eltos by putting into production the CAD/CAM technologies, modernizing production, and developing human resources. The project includes vocational training for 20 unemployed and retraining for 10 employed persons who will acquire new competencies corresponding to the innovation technologies in machine-building production. Upon completion of the project, 14 of the beneficiaries will obtain new positions with Sparky Eltos. The completion deadline of the project is 30 March 2008.

Recent Developments

By decision of the Lovech Regional Court № 810 of 06.07.2007, a capital increase of the Company from BGN 2,000,000 to BGN 14,000,000 was entered in the register. The increase was effected in accordance with the decision of the General Meeting of the Shareholders of Sparky Eltos of 15 June 2007 for capital increase, following the order under Art. 197, para.1, and Art. 246, para. 4 of the Company Act, by means of a transformation of profit for 2006 and the Company's reserves into equity, via the issue of 12,000,000 new registered dematerialized voting shares with a nominal value of BGN 1 each. The New Shares are distributed among the shareholders in proportion to their interest in the capital prior to the increase, and each shareholder obtains six new shares for one existing share.

By its decision of 30 July 2007, the Management Board of Sparky Eltos decided to start a new range of cordless professional power tools with lithium–ion /Li-Ion/ batteries. This type of batteries is becoming even more widely used in power tools production in recent years. It is environmentally friendly - an advantage of particular interest to the management of Sparky Eltos. Production of nickel-cadmium /Ni-Cd/ batteries, which have been used predominantly so far will be discontinued in 2010 at the latest because of the harmful cadmium.

The management of Sparky Eltos has undertaken this process as a result of its expectations of growth in the demand for cordless power tools on a world scale, and the tendency is expected to continue in the next 5-8 years.

DIRECTORS AND MANAGEMENT

Sparky Eltos has a two-tier management structure consisting of a Supervisory Board and a Management Board.

Supervisory Board

The Supervisory Board now comprises of:

Name	Position	Appointment to the Board	End of term of office
Stanislav Petkov	Chairman	December 1999	December 2009
Petar Baburkov	Chairman	December 1999	December 2009
Stoyan Spasov	Member	June 2007	June 2012

Source: Sparky Eltos

The Members of the Supervisory Board may be reached via the Sparky Eltos central office: 9 Koubrat Str., Lovech, Bulgaria.

Management Board

The Management Board now comprises of:

Name	Position	Appointment to the Board	End of term of office
Nikolai Kalbov	Chair of the Management Board and Chief Executive Director	December 1999	December 2009
Petar Atanasov	Deputy Chair of the Management Board and Executive Director	December 1999	December 2009
Ivan Alexiev	Member of the Management Board	June 2007	June 2012
Gina Kalcheva	Member of the Management Board	February 2000	February 2010
Anatolii Ivanov	Member of the Management Board	May 2002	May 2007
Miroslav Kalonkin	Member of the Management Board	February 2001	February 2011
Dimitar Bodzhakov	Member of the Management Board	June 2007	June 2012

Source: Sparky Eltos

The Members of the Management Board may be reached via the Sparky Eltos central office: 9 Koubrat Str., Lovech, Bulgaria.

Members of the Supervisory Board

Information about the Members of the Supervisory Board is given below; see also *General Information – Members of the Supervisory Board and Management Board of Sparky Eltos.*

Stanislav Petkov – ***Chair of the Supervisory Board***

Mr. Stanislav Petkov (50 years of age, German national) has been Chairman of the Supervisory Board of Sparky Eltos since 1999. He started his career as a Technologist with the Heavy Machine Building Institute, Radomir (1981 – 1982). From 1982 to 1984 he was representative of Elprom Borkem GmbH to Bulgaria.

From 1987 to 1989 he was an Expert with Electroimpix, Sofia. He was manager of Fred Sparky OOD, Sofia (1989 – 1998) and Chairman of the Board of Directors of Sparky Eltos (1996 – 1999).

Mr. Petkov is a partner and manager of Sparky GmbH, Germany, shareholder and Chairman of the Supervisory Board of Sparky Group AD, Sofia, and Chairman of the Supervisory Board of Sparky AD, Ruse.

Mr. Petkov is a machine engineer, M.Sc.Eng, a graduate of Sofia Techincal University. He holds an MBA from the Foreign Trade Academy, Moscow.

Petar Baburkov – Chair of the Supervisory Board

Mr. Petar Baburkov (51 years of age, German national) has been Chairman of the Suprevisory Board of Sparky Eltos since 1999. He began his career in Electroimpex Foreign Trade Company as an Expert and, later, Chief Expert (1982 – 1989). From 1989 to 1998 he was manager of Fred Sparky OOD, Sofia. In 1993 he was elected Chairman of the Board of Directors of Sparky Eltos and occupied the position until 1999.

Mr. Baburkov is a partner and manager of Sparky GmbH, Germany, shareholder and Chair of the Supervisory Board of Sparky Group AD, Sofia, and Member of the Supervisory Board of Sparky AD, Ruse.

Mr. Baburkov holds a degree in International Economic Relations from Moscow State Institute of International Relations.

Stoyan Spasov – Member of the Surpevisory Board

Mr. Stoyan Spasov (75 years of age, Bulgarian national) has been Member of the Supervisory Board of Sparky Eltos since June 2007. He started his career as Chief Engineer with Machine and Tractor Station, Sandanski (1956 – 1959). He was Junior Research Worker, Chief Constructor of agricultural machines and has been a Senior Research Worker since 1970. He has taken part in two projects in the Republic of Cuba for the implementation of a Bulgarian technology for industrial production of vegetables (1970 – 1975) and the development of the Cuban Research Institute for Vegetable Production named after Liliana Dimitrova (1986 – 1989). From 1978 to 1980 he worked in the Republic of Angola on the introduction of Bulgarian agricultural machines and the building of two agricultural enterprises for the production of vegetables. In 1993 he was approved a Professor with the Supreme Attestation Committee with the Academy in Havana. He has been working as a consultant after his retirement.

Mr. Spasov was Chairman of the Management Board of Sparky AD, Ruse, (2003 – 2005) and Deputy Chairman of the Board of Directors of Sparky Eltos.

Mr. Spasov holds a degree in Technologies for Automobiles, Tractors and Agricultural Machines from Sofia Technical University and Higher Institute of Mechanisation and Electrification in Agriculture, Ruse. He has more than 60 publications in magazines of applied sciences and the press, more than 30 publications in Bulgaria and 17 in Cuba. He is the co-author of books and methodological instructions about graphoanalytical analysis. He has 8 inventions and more than 20 studies, projects and successful implementations in the country and abroad.

Members of the Management Board

Biographical information about the Members of the Management Board is given below; see also *General Information – Members of the Supervisory Board and Management Board of Sparky Eltos*.

Nikolai Kalbov – Chair of the Management Board and Executive Director

Mr. Nikolai Kalbov (54 years of age, Bulgarian national) has been Chairman of the Management Board of Sparky Eltos since 1999. He started his career in Balkancarimpex Foreign Trade Company, Sofia (1979 – 1984). In 1985 he was appointed a public servant and in 1992 he became Executive Director of Teximbank, Eurobank. In 1996 he was elected Executive Director of Sparky Eltos and initially was Member of the Board of Directors of the Company and, since 1999, he has been Chairman of the Management Board of the

Company. From 2003 to 2006 he was Executive Director of Sparky AD, Ruse, and, until June 2007, he was Member of the Supervisory Board of the same company.

Mr. Kalbov is Member of the Suprevisory Board of Rotary Club Lovech Association and Stratesh Free Mason Association.

Mr. Kalbov completed his higher economic education in the Higher Economic Institute Karl Marx. He has a post-graduate qualification in foreign trade.

Petar Atanasov – Deputy Chairman of the Management Board and Executive Director

Mr. Petar Atanasov (51 years of age, Bulgarian national) has been Member of the Management Board of Sparky Eltos since 1999; he was appointed Executive Director of the Company in April 2007. He began his career in Machinexport Foreign Trade Company, Sofia (1982 – 1985). In 1985 he was appointed Expert with the Ministry of Foreign Trade. He worked as Expert on Merchandise, Head of Division in Machinexport Foreign Trade Company, Sofia (1988 – 1990) and Chief Expert with System Impex Engineering (1990 – 1991). From 1995 he was Deputy Director of Fred Sparky OOD, Sofia, and from 1999 to 2002 – manager of the same company. He was manager of Sparky Trading (2002 – 2007), Member of the Management Board of Sparky Group AD, Sofia (2002 – 2007) and procurator of Sparky Eltos (2005 – April 2007). From 1996 till 1999 he was Member of the Board of Directors of the Company.

Mr. Atanasov is Member of the Supervisory Board of Elresource AD, Sofia.

Mr. Atanasov holds a degree as an engineer from Dresden Technical University and finished studies in International Economic Relations in the Russian Foreign Trade Academy with the Ministry of Foreign Economic Relations, Moscow.

Ivan Alexiev – Member of the Management Board

Mr. Ivan Alexiev (53 years of age, Bulgarian national) has been Member of the Management Board of Sparky Eltos since 2007. From 1980 till 1993 he worked as a public servant. From 1993 he was Head of Department in Teximbank, Eurobank. He started working for Sparky Eltos in 1997 when he was appointed Head of Department in the Company. From 2003 till 2007 he was Administrative Director of the Company. Since 2002 he has been Investor Relations Director. He was Member of the Management Board of Sparky AD, Ruse.

Mr. Alexiev is a graduate of Higher Special School Georgi Dimitrov, Sofia.

Gina Kalcheva – Member of the Management Board

Ms. Gina Kalcheva (64 years of age, Bulgarian national) has been Member of the Management Board of Sparky Eltos since 2000. She worked as Accountant and Deputy Chief Accountant in Elprom factory, Lovech (1964 – 1975). From 1975 to 1979 she was Chief Accountant of Trubna Mebel factory. She started working for the Company in 1979 when she was appointed Chief Accountant. Since 2002 she has been Financial and Accounting Director and Chief Accountant.

Ms. Kalcheva holds a degree in Accounting Reporting from the Higher Financial and Economic Institute, Svishtov.

Anatolii Ivanov – Member of the Management Board

Mr. Anatolii Ivanov (47 years of age, Bulgarian national) has been Member of the Management Board of Sparky Eltos since 2002. From 1988 till 1990 he worked in Elprom factory, Lovech, as electric and mechanic fitter. In 1992 he was appointed Head of Workshop in the same company. From 1993 till 1996 he was Head of Sector in Eltos EAD, Lovech. He started working for the Company in 1996 and occupied the positions of Head of Production Regulation Sector, Head of Test Center Unit, Production Organizer and Deputy Head of Production Division, Head of Production Planning and Management Sector, Head of Production Department and Deputy Technical Director responsible for production. Since 2004 he has been Technical Director of the Company.

Mr. Ivanov holds a degree in Electronic Equipment from Gabrovo Technical University.

Miroslav Kalonkin – Member of the Management Board

Mr. Miroslav Kalonkin (47 years of age, Bulgarian national) has been Member of the Management Board of Sparky Eltos since 2001. He started his career in 1985 as Constructor in the Instrument and Equipment Construction Office with Elprom factory, Lovech. In 1992 he started working for the Company as Head of Metrological Equipment Sector. He was Head of Quality Control Department (1998 – 2000) and since 2000 he has been Deputy Technical Director of Sparky Eltos.

Mr. Kalonkin holds a degree in Technology of Machine Building and Machine Tools from Higher Technical School, Ruse. He is a Research Assistant, IIIrd rank, in the field of Processes and Pressure Processing Machines with Gabrovo Technical University. Since 2002 he has been internal auditor of ISO 9000-2000 quality control systems.

Dimitar Bodzhakov – Member of the Management Board

Mr. Dimitar Bodzhakov (54 years of age, Bulgarian national) has been Member of the Management Board of Sparky Eltos since 2007. He began his career in 1978 as Chief Technologist in Elprom factory, Lovech. He was Head of Group with Technological Department (1983 – 1987) and Head of Quality Control Department (1987 – 1993) in the same company. From 1993 he was Head of Quality Control Department with Eltos EAD, Sofia. He started working for the Company in 1994 as Head of Workshop. Since 2005 he has been Deputy Technical Director responsible for production.

Mr. Bodzhakov holds a degree in Electronic Equipment from Gabrovo Higher Machine and Electrical Institute. He became Research Worker, IIIrd rank, in 1984 and Research Worker, IInd rank, with Electric Production Testing Nikola Belopitov, Sofia, in 1985.

Meetings of the Supervisory Board and Management Board

The Company Act of 1991 requires that the Supervisory Board and Management Board meet at least once every three months.

The last meetings of the Supervisory Board and Management Board were held on 9 August and 4 September 2007 respectively.

Corporate governance

In accordance with the requirements of the Public Offering of Securities Act, the Management Board of Sparky Eltos has adopted a program for the application of internationally adopted standards of corporate governance (**the Program**) based on the principles of the Organization for Economic Cooperation and Development (OECD) and the Corporate Governance Code of the Bulgarian Stock Exchange.

The purpose of the Program is to ensure the protection of the shareholders' rights and equality, including minority shareholders. Second, to encourage cooperation between the Company and stakeholders to increase wealth, open new positions and provide for a sustainable development of the Company. Third, to ensure timely and accurate disclosure of information on all issues related to the Company, including its financial position, results of operations, ownership and management. Fourth, to support the strategic management of the Company, control over the activities of its management bodies and accountability of these bodies to the Company and shareholders.

The Program contains rules aimed at facilitating the shareholders' participation in the work of the General Meeting and their obtaining of certifying documents for the shares they hold. The Program lays out in detail the procedure for convening and holding General Meetings of the Company and indicates the cases when the Management Board is obligated to convene a General Meeting (transformation, capital increase, bond issues, disposal of assets whose amount requires the approval of the General Meeting of Shareholders, etc.) and describes in detail the shareholders' rights. There is a description of the procedure for entering into transactions with interested parties under Art. 114, para. 5 of the POSA. According to the Program, the Management Board is obligated to study in advance and approve the Company's entering into transactions which might have a material influence on the Company's activities and particularly on its profitability, the value of the assets and liabilities and its financial position. A detailed statement must be drawn up in the event of investments in other companies which contains justified and reasoned decisions concerning these activities. The Suprevisory Board must pay special attention to any transactions where one or more Director has a personal interest or an interest related to third parties.

The Program lays down the principles of the policy of the Company on interested parties defined as all persons who are not shareholders and who have an interest in the economic prosperity of the Company – holders of bonds if such are issued, workers and employees, customers, suppliers, distributors, creditor banks and the public as a whole. In accordance with the Program, the Management Board is obligated to pursue a targeted social policy with respect to the people working for the Company and work effectively with respect to the personnel policy, stimulation of youth employment, preservation of the environment and participation in social events. Taking into the account the importance of the distributors as people coming into immediate contact with the end users of the goods, the Company is obligated to provide them with information about the Company policy pursued, production strategy and pricing.

The Programs expressly indicates that, due to the nature of the structure of ownership in Sparky Eltos, namely the high concentration of voting rights with one majority holder, it is taken that the managers act purposefully for the prosperity of the Company and the shareholders' common interests. The Program envisages additional criteria (outside those provided for in the regulatory framework) for the election of Members of the Management Board and the Supervisory Board. According to the Program, the Company will nominate for Supervisory Board Members only people who have proven their professionalism, experience and qualities in advance. The Members of the Management Board must have organizational and managerial experience and the appropriate higher education.

In relation to the disclosure of information and ensuring transparency in the activities of the Company, the Members of the Management Board must provide the necessary volume of public information and cooperate with the Investor Relations Director in the performance of his/her activities. In accordance with the Program, Sparky Eltos must ensure effective communication with all shareholders and the latter will have access to the Company and will be able to see the production cycle and products made. In relation to the presentation and popularization of Sparky Eltos through the specialized economic editions, the Company management is obligated to provide the journalists with accurate, truthful and precise information about its activities.

Information about the Program, its implementation and performance by Sparky Eltos and its management is included in the annual report on the management and activities of the Company and published together with the annual report pursuant to the requirements of the law.

MAIN SHAREHOLDERS

According to the information available to Sparky Eltos, only the Majority Shareholder in the company owns a stake of more than 5.0% of its capital.

	Before the Capital Increase		**After the Capital Increase** (1)	
	Shares (in thousands)	***% of the capital***	***Shares (in thousands)***	***% of the capital***
Sparky Group (2)..	11,190	79.9	11,190	66.6
Other shareholders (3)	2,810	20.1	5,610	33.4
Total	14,000	100.0	16,800	100.0

(1) Assuming that all New Shares are issued and the Capital Increase is executed in full.

(2) The data in the *After the Capital Increase* column assume that Sparky Group does not participate in the Capital Increase and does not subscribe to New Shares.

(3) Including 1 shareholder with 3% and 1 shareholder with 1.3%.

Source: Sparky Eltos

The Lead Manager UniCredti Bulbank will offer the New Shares on international and local institutional and professional investors and will assist, upon imitative of the investors, in the purchase of Rights on the BSE and in the subscription to New Shares, see *Subscription and Sale – Subscription for the New Shares – General*. In the event of interest in acquiring New Shares by renowned outside investors, and if satisfied with the prices offered for the Rights, Sparky Group intents to sell part of its Rights, in view of allowing such outside investors to subscribe to New Shares.

Majority Shareholder

The Majority Shareholder in the Company is Sparky Group AD (**Sparky Group**, previously under the name of Sparky Bulgaria AD), entered into the company register of Sofia City Court under company case № 5523/2002, with registered office and business address: 18 Parva Balgarska Armia Str., Sofia, with a capital of BGN 50,000. The factual scope of activities of Sparky Group is management, planning and consulting the companies from the Group.

Sparky Group is fully owned by the members of the Supervisory Board of Sparky Eltos Mr. Stanislav Petkov and Mr. Petar Barbukov, and each of them holds 50% of the Company’s capital. Hence Mr. Stanislav Petkov and Mr. Mr. Petar Barbukov are practically indirect majority shareholders in the Company.

Exercising Control over Sparky Eltos

As of the date of this document Sparky Group holds the majority of the votes in the General Meeting of the Company and is able unilaterally to take all decisions that are within the competence of the General Meetings of Shareholders of Sparky Eltos. Even if it does not subscribe to New Share of the Capital Increase, the Majority Shareholder will continue to exercise effective control over the Company.

Under the Public Offering of Securities Act of 1999 any transaction between the Company on the one part, and Sparky Group, directly or via related parties, on the other part, must be approved by the shareholders at the General Meeting of the Company, if the value of the transaction is 2% or more of the carrying value of the Company’s assets. Sparky Group, which has a vested interest and is acknowledged by the law as an “interested party”, may not vote at the General Meeting regarding this issue. If the value of the transactions is less than 2% of the carrying value of the Company’s assets, it must be approved by its Management Board (in some cases by the Supervisory Board as well). For more information, see *Description of the Shares and the Applicable Bulgarian Legislation – Major Transactions and Transactions with Interested Parties*.

Sparky Eltos has adopted a good corporate governance program, based on the principles of OEDC, see *Directors and Management – Corporate Governance*.

SELECTED HISTORICAL FINANCIAL INFORMATION

The selected information laid out below has been extracted from and must be viewed in conjunction with the audited financial statements of Sparky Eltos, which include, among other, a balance sheet, an income statement and a cash flows statement for 2004, 2005 and 2006, which are included in this Prospectus.

The financial information about the Company for preceding years has been prepared in accordance with IFRS (**International Financial Reporting Standards**). The following information must be viewed in conjunction with *Financial and Operating Review*, the related financial information and the accompanying notes included in this Prospectus.

The operations of Sparky Eltos after 31 December 2006 have been developing according to expectations. As a whole the management retains the expectations it has had so far with regard to the development of the operations in 2007.

Listed below is data from the Company's income state.

	As of 30 June		As of 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
			(BGN in thousands)		
Operating income					
Sales	23,567	21,083	49,019	40,393	40,969
Other income	438	474	697	1,170	904
	24,005	21,557	49,716	41,563	41,873
Operating expenses					
Cost of materials	16,320	14,475	33,919	29,245	29,939
External services	837	881	2,087	1,946	2,006
Depreciation expenses	2,598	2,299	4,691	4,350	4,442
Wages	3,795	3,416	7,112	6,027	5,313
Other expenses	610	436	1,129	1,078	695
Adjustments	(4,142)	(918)	(2,553)	(3,504)	(1,645)
	20,018	20,589	46,385	39,142	40,750
Operating profit	3,987	968	3,331	2,421	1,123
Net interest expenses	(757)	(810)	(1,953)	(1,880)	(1,761)
Other financial income/(expenses)	(171)	(86)	(267)	(331)	743
Profit before tax	3,059	72	1,111	210	105
Tax	-	-	(182)	(113)	(91)
Profit after tax	3,059	72	929	97	14

Listed below is data from the balance sheet of Sparky Eltos

	As of 30 June	As of 31 December		
	2007	**2006**	**2005**	**2004**
		(BGN in thousands)		
Assets				
Non-current assets				
Property, plant and equipment	55,225	39,567	38,112	34,947

Intangible non-current assets	293	294	112	52
Non-current financial assets	17	17	12	12
Deferred tax assets	2	2	8	15
Total	55,537	39,880	38,244	35,026
Current assets				
Inventory	26,559	21,210	18,516	13,576
Receivables form related parties	2,361	19	8,573	13,492
Receivables and advance payments	768	6,318	2,177	7,777
Cash	1,435	219	128	87
Current financial assets	3	3	2	5
Total	31,126	27,769	29,396	34,937
Total assets	**86,663**	**67,649**	**67,640**	**69,963**

OPERATING AND FINANCIAL REVIEW

The presentation below is a discussion of the operating results and financial position of Sparky Eltos as of 31 December 2004, 2005 and 2006. Potential investors need to view this discussion in conjunction with the complete document, including the Risk Factors section – page 9, *the financial reports of Sparky Eltos and the attachments thereto, which are all included elsewhere in the present document, and should not limit themselves to the generalized information contained in the present section. Sparky Eltos has prepared its financial reports as of 31 December 2004, 2005 and 2006 in accordance with the International Financial Reporting Standards, developed and published by the International Accountings Standards Board and adopted by the European Union. The financial information in this section has been extracted without significant modifications from the annual financial statements of Sparky Eltos for 2004, 2005 and 2006, and the attachments thereto or from the accounting records of Sparky Eltos, on the basis of which the respective annual reports were prepared.*

This section contains forward-looking statements. These statements, concerning future periods, are related to risks, uncertainty and other factors, as a result of which the future operating results of Sparky Eltos or its cash flows may differ significantly from those laid out in this section.

General

This operating and financial review of Sparky Eltos should be read in conjunction with the financial reports of the Company for the years ending on 31 December 2006, 2005 and 2004 respectively, and audited by Grant Thorton Bulgaria OOD. Sparky Eltos keeps its accounts and prepares its financial reports in accordance with the International Financial Reporting Standards (IFRS), adopted by the International Accounting Standards Board (IASB), on the basis of the respective edition applicable for each reporting period, and the respective interpretations issued by the IFRS Interpretations Committee (IFRSIC).

Significant Factors Affecting Results of Operations

The operating results of Sparky Eltos are affected by a number of factors, including the macroeconomic conditions in Bulgaria, competition, legislative changes, taxation, changes in foreign exchange rates.

Macroeconomic Conditions in Bulgaria

Sparky Eltos operates in Bulgarian and a significant part of the company's income and expenses is generated in Bulgarian Leva. The operations of Sparky Eltos are related to the overall economic situation in the country, the successful application of the economic reforms moving the market, the growth of the Gross Domestic Product and of the purchasing power of Bulgarian consumers. Bulgaria is member of the European Union as of 1 January 2007. The continuing application of market economy policy and the country's integration within the EU should have a beneficial effect on the economy of Bulgaria and improve the environment in which the Group operates.

Competition

Sparky Eltos operates within highly competitive local and foreign markets with fully liberalized price mechanisms. A significant part of the Company's production is exported. As member of the EU Bulgaria is significantly more attractive to foreign investors and the operation of foreign and primarily European companies within the country is greatly facilitated. Competitors' policy is often difficult to predict and this may affect the Company's results of operations in the future.

Foreign Exchange Rates

The Group prepares its consolidated financial statements under IFRS in Bulgarian Leva. As of 1997 the Lev has been pegged to the Deutche mark and later to the euro. Currently the exchange rate is fixed at EUR 1.00 =

BGN 1.95583. Since the exchange rate of the Bulgarian Lev to the euro is fixed, the exchange rate of the euro to the US dollar directly affects the exchange rate of the US dollar to the Bulgarian Lev. Fluctuations in exchange rates affect parts of the Group's operations, in particular income from export of products to countries outside the EU.

Legislative and Regulatory Changes

The Group's operating results are influenced by the existing legislation in Bulgaria and its periodic amendments. The process of harmonization of Bulgarian legislation and regulatory practice with these of the EU is ongoing, and this will continue to affect significantly the environment in which the Company operates and its results.

Corporate Tax Reduction

The net operating results of Sparky Eltos have been positively influenced by the decrease of corporate tax, which took place several times in Bulgaria in recent years: from 19.5% to 15% to its present rate of 10%.

Major Elements of the Accounting Policy

Foreign Currency Transactions

The financial reports of the Company are prepared in Bulgarian Leva (BGN) and this is the Company's reporting currency.

Foreign currency transactions are reported upon their initial recognition, in the Company's reporting currency at the official exchange rate on the day of the transactions (the rate announced by the Bulgarian National Bank).

Income and Expenses

Income is measured at the fair value of the payment or compensation received or due to be received, taking into account the amount of any trade discounts and quantity rebates made by the company. The exchange of similar assets with a similar price is not viewed as an income-generating transaction.

Income related to a provision of services transaction is recognized when the result of the transaction may be reliably measured.

Operating expenses are recognized in the Income Statement at the moment of using the service or as of the date of their incurrence. Interest gains and losses are reported using the accrual principle.

Loans and borrowings

All borrowing costs are recorded as of the moment of their incurrence. Upon their initial recognition loans are recorded at their fair value, net of the transaction costs. The subsequent measurement of loans is made at their depreciable amount. The differences between the amount of loans received, net of the transaction costs, and the payment value, are recognized in the Income Statement for the period of the loan, using the effective interest rate method.

Property, Plant and Equipment

Property, plant and equipment are measured initially at cost, which includes acquisition costs as well as any direct expenses for rendering the asset operational.

The subsequent measurement is made on the basis of the allowed alternative treatment, i.e. at revalued amount, which equals the fair value as of the revaluation date, less the depreciation and impairment losses accumulated subsequently.

Depreciation of tangible non-current assets is calculated using the straight-line method on the measured useful life of the individual assets, as follows:

	Useful life *(in years)*
Property, plant, transmitters ………………………………………………………………..	25
Equipment, manufacturing units …………………………………………………………...	3
Vehicles, excluding cars ……………………………………………………………………	10
Computer equipment ……………………………………………………………………….	2
Cars ……………………………………………………………………………………………	4
Repaired assets with an extended useful life ………………………………………………….	50
Others ………………………………………………………………………………………...	7

Source: Sparky Eltos

Intangible Non-Current Assets

Intangible non-current assets are measured initially at cost. In the events of individual acquisitions the cost is equal to the asset's purchasing price, as well as any duties paid, unrecoverable taxes and direct expenses made in relation to rendering the asset operational. Subsequent measurement is carried out on the basis of the benchmark treatment, i.e. acquisition cost less accumulated amortization and impairment losses. The impairments are recorded as an expense and are recognized in the Income Statement for the respective period.
Amortization is accrued using the straight-line method on the measured useful life of the individual assets, as follows:

	Useful life *(in years)*
Patents, licenses ……………………………………………………………………………….	7
Software ……………………………………………………………………………………….	2

Source: Sparky Eltos

Inventory

Inventory includes materials, work in progress, and finished goods. The cost of inventory includes the costs for its acquisition, production, processing and other direct delivery-related costs. Financial expenses are not included in the value of inventory.

The Company determines inventory costs using the weighted average cost method.

Upon sale of inventory its carrying amount is recognized as an expense in the period in which the corresponding income was recognized.

Impairment of the Assets of the Company

The carrying amount of the Company's assets is revised as of the date of preparation of the balance sheet in order to determine whether there are indications that the value of a certain asset has been impaired.

Financial Assets

Financial assets include cash and financial instruments. Financial instruments include loans and receivables.

Financial assets are recognized on the date of the transaction.

Interest payments and other cash flows related to holding financial assets are recorded in the Income Statement upon their receipt, regardless of how the carrying amount of the financial assets they relate to is measured.

Trade receivables are impaired where there is objective evidence that the Company will not be able to collect the due amounts in accordance with the original terms of the transaction. The amount of the impairment is determined as a difference between the carrying amount of the receivable and the present value of the future cash flows.

Accounting for a Hedging Agreement

The company has an obligation in US dollars under the Settlement of Uncollectible Loans Act, and is therefore exposed to risks related to possible changes in the exchange rate of the US dollar. The Company uses a currency risk hedging instrument – a hedging agreement with SG Logistics Ltd. The hedged position is an obligation under the Settlement of Uncollectible Loans Act. As of 31 December 2006 the hedged positions is to the amount of USD 3,234,000.

The hedging agreement is a derivative financial instrument that is recognized initially at fair value on the date of concluding the agreement. Subsequent measurement is at fair value.

Income Tax

Current tax assets and/or liabilities are those liabilities to or receivables from the budget that apply to the current period and have not been paid as of the date of the balance sheet. They are calculated on the basis of the applicable tax rate and the income taxation rules for the period they apply to, on the basis of the taxable financial result for the period. Any changes in tax assets or tax liabilities are recognized as an element of tax expenses in the Income Statement.

Deferred taxes are calculated using the balance sheet method. It includes a comparison between the carrying amount of the assets and liabilities and their respective tax base.

Liabilities under deferred temporary differences are recognized in their full amount. Assets under deferred temporary differences are recognized only to the extent to which there is a probability that they be utilized through future tax profits.

To determine the amount of deferred tax assets and liabilities, tax rates expected to be valid for the period of their realization are applied.

A significant part of the changes in deferred tax assets or liabilities are recorded as a component of tax expense in the Income Statement. A change in deferred tax assets or liabilities resulting form a change in the fair value of assets or liabilities that is recorded directly into the equity – such as revaluation of land – is recorded directly into equity.

Cash and Cash Equivalents

The Company records as cash and cash equivalents its cash in hand, cash in bank accounts, deposits, short-term and highly liquid investments that are easily convertible to a cash equivalent and carry an insignificant risk of change in value.

Equity

The Company's shareholders' equity reflects the par value of the issue shares.

The revaluation reserve consists of gains and losses related to revaluation of property, plant and equipment.

The other reserves are formed from the redistribution of profit and include reserves required by law and additional reserves.

The financial result includes the current financial result for the period and the accrued profit and uncovered losses, as determined by the Income Statement.

Financial Liabilities

The Company's financial liabilities include bank loans and overdrafts, trade and other liabilities and financial lease liabilities. They are included in the Company's balance sheet on the lines "non-current liabilities" and "current liabilities".

Financial liabilities are recognized when there is a contractual obligation to pay cash or other financial assets to another company, or a contractual obligation to exchange financial instruments with another company at potentially unfavorable terms. All interests expenses are recognized as financial expenses on the "financial expense" line in the Income Statement.

Bank loans are taken with a view to long-term furtherance of the Company's operations. They are recorded in the Company's balance sheet, net of the expenses related to receiving the loan. Financial expenses, such as a premium due upon settlement of the loan or its redemption, the direct transaction costs are recorded in the Income Statement on the basis of the accrual principle using the effective interest rate method and are added to the carrying amount of the financial asset to the degree to which they are not settled as of the end of the period in which they were incurred.

Financial lease liabilities are measured at their initial value less the capital element of the lease contribution. Trade receivables re recognized initially at their par value and subsequently are measured at their amortizable value less the payment related to the settlements of the liability.

Operating results

The table below lists information about the components of the Company's net profit as of 30 June 2007, 30 June 2006, the financial years ending respectively on 31 December 2006, 2005 and 2004, as well as the change in percentage of each component.

	As of 30 June		As of 30 December			Change		
						As of 30 June	As of 30 December	
	2007	2006	2006	2005	2004	2007/2006	2006/2005	2005/2004
				(BGN in thousands)				*(%)*
Operating income								
Sales	23,567	21,083	49,019	40,393	40,969	11.78	21.36	-1.41
Other income................	438	474	697	1,170	904	-7.59	-40.43	29.42
	24,005	21,557	49,716	41,563	41,873	11.36	19.62	-0.74
Operating expenses								
Cost of Materials.....	16,320	14,475	33,919	29,245	29,939	12.75	15.98	-2.32
External services............................	837	881	2,087	1,946	2,006	-4.99	7.25	-2.99
Depreciation expenses	2,598	2,299	4,691	4,350	4,442	13.01	7.84	-2.07
Wages............	3,795	3,416	7,112	6,027	5,313	11.09	18.00	13.44
Other expenses	610	436	1,129	1,078	695	39.91	4.73	55.11
Adjustments	(4,142)	(918)	(2,553)	(3,504)	(1,645)	351.20	-27.14	113.01
	20,018	20,589	46,385	39,142	40,750	-2.77	18.50	-3.95
Operating profit	3,987	968	3,331	2,421	1,123	311.88	37.59	115.58
Net interest expenses	(757)	(810)	(1,953)	(1,880)	(1,761)	-6.54	3.88	6.76
Other financial income/(expenses)	(171)	(86)	(267)	(331)	743	98.84	-19.34	-144.55
Profit before tax	3,059	72	1,111	210	105	4,148.61	429.05	100.00
Taxation	-	-	(182)	(113)	(91)	-	61.06	24.18
Profit after tax	3,059	72	929	97	14	4,148.61	857.73	592.86

Source: Sparky Eltos

Sales

Net sales in 2006 are BGN 49,019,000 and consist primarily of sales of power tools, as well as components and spare parts for such tools.

Over the last few years – 2005 and 2006, Sparky Eltos has invested significant efforts in broadening the range of professional power tools and increasing their share in total sales. Professional power tools have higher price levels than standard power tools, and hence net income grew by 21.4% in 2006 on an year-to-year basis and 11.8% in the first half of 2007 agains the same period in 2006. About 58% of sales growth in 2006 against 2005 resulted from the increased prices following the improved structure of items sold. The remaining 42% of the growth and sales are due to the greater volume in terms of power tools sold, which is a result of the successful marketing of an increasingly broader range of power tools on the existing markets and the development of new markets and market segments.

Major Operating Expenses

Wages

The Company's staff costs consist primarily of wages and social insurance costs. In accordance with the growth in manufacturing and sales, and hence the average number of employees of Sparky Eltos, staff costs increase respectively by 13.4% and 18% for 2005 against 2004 and 2006 against 2005.

Depreciation costs

In accordance with the Companys's accounting policy the costs for depreciation and amortization of Sparky Eltos's long-term tangible and intangible assets respectively, are based on the straight line method. Depreciation of newly acquired assets begins as of the month following the month in which they were put into operation.

Depreciation costs increased by about 8% in 2006, as a result of the investments made in 2005 and 2006.

External services

External services include various costs such as consulting, state and municipal fees, collateral, repair and maintenance of assets, insurance costs and general administrative costs (e.g. communications expenses). In 2006 costs for external services rose by as little as 7%, from BGN 1,946,000 to BGN 2,087,000, as a result of the increased production volume.

Cost of materials

Cost of materials is a major expense in the income statement of Sparky Eltos and account for more than 70% of all operating expenses. It includes materials for production, electric power costs, fuel products and lubricants, work clothes, wrapping materials, as well as food for the Company canteen. Cost of material rose by approximately 16% in 2006 against 2005, in line with the growth of sales.

Operating Profit

The operating profit of Sparky Eltos, as a percentage of operating income, increase from 2.6% to 5.8% in 2005 against 2004 and to 6.7% in 2006. The same indicator for the first half of 2007 is 16.6%. Besides the increase of the share of the more profitable professional power tools in total sales, the increased operating profit rate results from the fact that in 2006 the Company passed the break-even point of sales and having covered its fixed expenses, the contribution, i.e. the difference between income and variable expenses, is recorded in the income statement of Sparky Eltos as net operating profit.

Net Financial Income and Expenses

The Company's income and expenses related to financial operations consist of income and expenses in connection with interest paid or accrued, foreign currency gains and losses, gains form operations in financial assets and various other financial expenses, such as bank fees and commissions.

Interest expenses are expenses paid by Sparky Eltos on loans from banks and other financial institutions. In 2006 such expenses increased against 2005 by about 4% - from BGN 1,880,000 to BGN 1,953,000.

Bank fees and commissions paid by the Company increase from BGN 413,000 in 2005 to BGN 443,000 in 2006.

Gains from operations in financial assets and instruments are the difference between the par value of compensatory notes, with which interest on a loan in connection with the Settlement of Uncollectible Loans Act was paid, and their purchase price. Growth from BGN 109,000 in 2005 to BGN 152,000 in 2006 is registered.

Net income from the Company's financial operations in 2006 amounts to minus BGN 2.2 million, unchanged from 2005. Net expenses grew in 2005 against 2004 mainly due to the reverse effect in 2004 of the gains from payment of interest under the Settlement of Uncollectible Loans Act with compensatory notes, which amounts to BGN 991,000 due to the low market price of these financial instruments in 2004.

Taxation

The expenses of Sparky Eltos on profit tax are the amount of tax currently due plus deferred tax.

Tax currently due is based on the taxable profit for the year. The taxable profit is different from pre-tax profit as listed in the income statement since it excludes the items of income and expenses that are subject to taxation or deduction in other years and the items that are never subject to taxation or deduction. The Company's current obligations are calculated using tax rates that have become or will become effective by the date of preparation of the balance sheet.

Deferred tax is tax expected to be paid or recovered from the differences between the carrying amount of assets and liabilities in the financial statement and the respective tax base used in the calculation of the taxable profit, and is accounted for using the balance sheet method of liabilities. Deferred tax is calculated using tax rates that are expected to be effective in the period in which the liabilities are paid or the assets sold.

In accordance with the Bulgarian Corporate Income Taxation Act, the following tax rates have been applied in calculating the tax obligation:

	2006	**2005**	**2004**
Corporate tax	15,0%	15,0%	19,5%

Source: Sparky Eltos

Liquidity and Capital Resources

The major capital requirements of the Company consist of the main working capital needs, servicing of debts and funding of investments. The major sources of liquidity for Sparky Eltos are the generated cash flows, long-term and short-term borrowings, as well as the management of the working capital.

Cash flows

The table bellows shows the cash flows of Sparky Eltos for 2006, 2005 and 2004:

Cash flows in BGN in thousands.	**2006**	**2005**	**2004**
Cash flows from operations	7,657	6,097	(3,233)
Cash flows from investing activities	(3,714)	(4,641)	(7,324)
Cash flows from financing activities	(3,852)	(1,415)	10,577
Changes in cash flow during the period	91	41	20
Cash flows at beginning of period	128	87	67
Cash flows at end of period	219	128	87

Source: Sparky Eltos

For the year ending on 31 December 2005 the net cash flow form operations of the Company rose to BGN 7,657,000, against BGN 6,097,000 in 2005 as a result of the significant decrease in trade receivables and increase in earnings before interests, tax and amortizations.

The Company spent BGN 3,714,000 on investment activities in 2006 against BGN 4,641,000 in 2005.

Net funds used for financing activities of the group amount to BGN 3,852,000 in 2006 against 1,415,000 in 2005 as a result of the repayment of loans and lease contracts to the excess of the new revenues from borrowings.

Analysis of the Financial Condition

Assets

The following tables shows the main categories of assets of Sparky Eltos as of 30 June 2007, 31 December 2006, 2005, and 2004, as well as the change in percentage for each position:

	As of 30 June	**As of 31 December**	**Change**

	2007	2006	2005	2004	2007/2006	2006/2005	2005/2004
	(BGN in thousands)				(%)		
Assets							
Non-current assets							
Property, plant and equipment	55,225	39,567	38,112	34,947	39.57	3.82	9.06
Non-current intangible assets...........	293	294	112	52	-0.34	162.50	115.38
Non-current financial assets	17	17	12	12	0.00	41.67	0.00
Deferred tax assets	2	2	8	15	0.00	-75.00	-46.67
Total	55,537	39,880	38,244	35,026	39.26	4.28	9.19
Current assets							
Inventory	26,559	21,210	18,516	13,576	25.22	14.55	36.39
Receivables from related parties	2,361	19	8,573	13,492	12326.32	-99.78	-36.46
Receivables and advance payments	768	6,318	2,177	7,777	-87.84	190.22	-72.01
Cash	1,435	219	128	87	555.25	71.09	47.13
Current financial assets	3	3	2	5	0.00	50.00	-60.00
Total	31,126	27,769	29,396	34,937	12.09	-5.53	-15.86
Total assets	**86,663**	**67,649**	**67,640**	**69,963**	**28.11**	**0.01**	**-3.32**

Source: Sparky Eltos

The Company's assets amount to BGN 67.6 million as of 31 December 2006, standing at a similar level as in 2005 and 2004. As of 30 June 2007 assets grow by 28.1% to BGN 86.7 million primarily as a result of revaluation of land, increase in inventory, receivables from related parties and cash.

The carrying amount of non-current intangible assets shows a tendency to increase, as a result of the continuous investments in increasing capacity and improving quality, which exceed depreciation for the respective period. As of 30 June 2007 the market value of the land on which the manufacturing site of the Company is located is revaluated. The revaluation is at BGN 16,494,000.

Inventory increase by nearly 15% as of 31 December 2006 against 31 December 2005 and by 25% as of 30 June 2007 against 31 December 2006. In absolute terms the increase is highest in materials and work in progress, primarily as a result of the updating of the annual sales program to BGN 71,300,000 and the need for continuous supply of materials for manufacturing.

Receivables from related parties show significant movements at the four dates of the balance sheet as a result of the fact that receivables from sales to related parties are covered not only by payments but also by supplies from the counter parties, for which deduction protocols a prepared. The significant amount of these receivables in previous years is due to non-deducted amounts as of the date of the balance sheet.

Receivables and advance payments are receivables under sales as well as advance payments to suppliers. Their significant decrease from 31 December 2006 to 30 June 2007 to the amount of 88% is due primarily to the fulfillment of commitments for supply of materials by suppliers that had received advance payments as at 31 December 2006.

Cash increases by 555% from 31 December 2006 to 30 June 2007 as a result of payments from clients, which were not distributed as of the balance sheet date.

Equity and Liabilities

The following table shows the structure of liabilities and equity of Sparky Eltos as of 31 June 2007, 31 December 2006, 2005, and 2004 and the change in percentage of the individual components.

	As of 30 June	As of 31 December			Change		
	2007	2006	2005	2004	2007/2006	2006/2005	2005/2004
	(BGN in thousands)				(%)		
Equity							
Share capital...........................	14,000	2,000	2,000	2,000	600.00	0.00	0.00

Revaluation reserve....................	32,120	15,626	15,627	15,979	105.55	-0.01	-2.20
Other reserves.............................	512	11,621	11,176	11,167	-95.59	3.98	0.08
Financial result......................	3,059	891	445	38	243.32	100.22	1,071.05
Total equity	49,691	30,138	29,248	29,184	64.88	3.04	0.22
Liabilities							
Non-current liabilities							
Long-term loans.......................	20,767	22,066	25,681	27,810	-5.89	-14.08	-7.66
Non-current part of financial lease liabilities.......................	3,739	3,800	1,764	75	-1.61	115.42	2,252.00
Total	24,506	25,866	27,445	27,885	-5.26	-5.75	-1.58
Current liabilities							
Liabilities and advance payments	6,825	6,238	6,033	8,546	9.41	3.40	-29.41
Liabilities to related parties....	106	97	192	771	9.28	-49.48	-75.10
Short-term loans.....................	4,318	4,254	4,192	3,440	1.50	1.48	21.86
Current part of financial lease liabilities.......................	1,217	1,056	530	137	15.25	99.25	286.86
Total	12,466	11,645	10,947	12,894	7.05	6.38	-15.10
Total liabilities................................	36,972	37,511	38,392	40,779	-1.44	-2.29	-5.85
Total equity and liabilities............	**86,663**	**67,649**	**67,640**	**69,963**	**28.11**	**0.01**	**-3.32**

Source: Sparky Eltos

The Company's liabilities amount to BGN 67.6 million as of 31 December 2006, standing at a similar level as in 2005 and 2004. As of 30 June 2007 liabilities increase by 28.1% to BGN 86.7 million as a result primarily of the increase of reserves form revaluation of land and increase in current profit.

The most significant changes in equity are in the first half of 2007 and specifically in Revaluation Reserve, which increases by 106% against 31 December 2006 as a result of revaluation by BGN 16,494,000 to the market value of the land, on which the Company's manufacturing capacities are located. At the same time, BGN 891,000 of the profit for 2006 and BGN 11,109,000 from Other Reserves are used to increase the capital of the company from BGN 2,000,000 to BGN 14,000,000 by means of an issue of 12,000,000 new registered dematerialized voting shares, as a result of which the Other Reserves decrease by 96% as of 30 June 2007 against 31 December 2006.

Long-term loans decrease by nearly 6% as of 30 June 2007 against 31 December 2006 due to their repayment in accordance with their respective pepayment plans.

MATERIAL INDEBTEDNESS

Listed below are some instances of material indebtedness of Sparky Eltos. The following information does not claim to be exhaustive.

Loans

Loan Agreement with DEG of 2001

On 20 December 2001 an agreement was signed between DEG - Deutsche Investitions UND Entwicklungs gesellschaft MBH as creditor and Sparky Eltos as borrower, to the amount of EUR 2.28 million. The loan was extended for partial funding of the expansion of manufacturing capacities in compliance with environmental requirements, as well as for working capital. The full amount of the loan has been utilized. The maturity of the obligation is 15 November 2009. The loan has been secured by a first rank mortgage on land and buildings of the Company, located in 9 Kubrat Str., Lovech, which is *pari passu* with the mortgage to the benefit of the private investors (see the paragraph below) and is valued at EUR 576,000. Guarantee is provided by Sparky GmbH, Stanislav Petkov and Petar Barbukov and with a pledge on all shares of Sparky GmbH in Sparky Eltos. (Sparky GmbH has subsequently transferred all of these share to the Majority Shareholder). Machine and equipment purchased with the funds from the investment loan are put in a first-rank special pledge at a value of EUR 3.9 million. As of 30 June 2007 the outstanding portion of the loan amounts to EUR 814,000.

Loan Agreement with Dietrich H. Westfall and Other Private Investors

On 20 December 2001 an agreement was signed between private investors, represented by Dietrich H. Westfall, as creditors, and Sparky Eltos as borrower, to the amount of EUR 576,000. The full amount of the loan has been utilized. The maturity of the obligation is on 15 November 2009. The loan has been secured by a second rank mortgage on land and buildings of the Company, located in 9 Kubrat Str., Lovech. The mortgage to the benefit of the Private Investors is *pari passu* with the mortgage to the benefit of DEG (see the paragraph above) and is valued at EUR 2.28 million. Machines are put in a second-rank pledge in favor of the Private Investors, guarantee is provided and other commitments are undertaken by Sparky GmbH, Stanislav Petkov and Petar Barbukov. As of 30 June 2007 the outstanding portion of the loan amounts to EUR 247,000.

Loan Agreement with DEG of 2004

On 29 June 2004 an agreement was signed between DEG - Deutsche Investitions UND Entwicklungs gesellschaft MBH as creditor and Sparky Eltos as borrower, to the amount of EUR 3 million. The loan was extended to finance the expansion of the Company’s operations. The full amount of the loan has been utilized. The maturity of the obligation is on 15 June 2010. The loan has been secured by a third rank mortgage on land and buildings of the Company, located in 9 Kubrat Str., Lovech, valued at EUR 3 million. Guarantee is provided by Sparky GmbH, Stanislav Petkov and Petar Barbukov, promissory notes by the Majority Shareholder and Sparky Trading AD, as well as a second rank special pledge on machines and equipment purchased with the funds from the investment loan, valued at EUR 4.65 million. As of 30 June 2007 the outstanding portion of the loan amounts to EUR 1.8 million.

Loan Agreement with UniCredit Bulbank

On 19 October 2004 a revolving credit agreement was signed between UniCredit Bulbank (then Bulbank AD) as creditor and Sparky Eltos as borrower. The loan amount has been increase several time and currently stands at EUR 6.4 million (approximately BGN 12.5 million). The loan was extended for working capital purposes. The full amount of the loan has been utilized. The maturity of the obligation is on 20 April 2008. The loan has been secured by a special pledge on machines and equipment at a value of approximately BGN 12.3 million, a special pledge on warehoused materials with a minimum quantity kept in stock at a value of approximately BGN 4.8 million, a special pledge on warehoused finished goods with a minimum quantity kept in stock at a value of approximately BGN 1.5 million, a special pledge on machines and equipment at a value of approximately BGN 1.5 million, and a special pledge on warehoused production with a minimum quantity kept in stock at a value of approximately BGN 1.0 million, as well as with promissory notes for each repayment installment. As of 30 June 2007 the outstanding portion of the loan amounts to EUR 6.4 million.

Loan Agreement with UniCredit Bulbank

On 9 November 2004 an agreement for an investment loan was signed between UniCredit Bulbank (then Bulbank AD) and Sparky Eltos as borrower. The loan amount is EUR 500,000 (approximately BGN 977,900). The loan was extended for the purchase of long-term tangible assets. The full amount of the loan has been utilized. The maturity of the obligation is on 25 April 2009. The loan has been secured by a second-rank special pledge on machines and equipment at a value of approximately BGN 3.9, a special pledge on warehoused materials with a minimum quantity kept in stock at a value of approximately BGN 1.0 million and with promissory notes for each repayment installment. As of 30 June 2007 the outstanding portion of the loan amounts to EUR 300,000.

Loan Agreement with Central Cooperative Bank AD

On 7 august 2007 a framework contract for issuance of bank security and providing guarantee for an agreed limit of up to BGN 750,000 for guaranteeing of customs duties for goods and finished products was signed between Central Cooperative Bank AD, Sofia, on the one part, and Sparky Eltos, on the other part. The agreement was concluded for a term until 7 August 2010. The agreement is secured by a special pledge on machines and equipment and finished goods at a value of approximately BGN 824,000.

Agreement under the Settlement of Uncollectible Loans Act

On 20 January 1995 an agreement was entered into between the Ministry of Finance and the Ministry of Industry, on the one part, and Sparky Eltos on the other part, regarding the settlement of the Company's obligations towards the Bulgarian state, stemming from loans to commercial banks from the period before its privatization, under the Settlement of Uncollectible Loans Contracted Before 31 December 1990 Act. The obligations of Sparky Eltos under this agreement, reassessed as of 27 July 2004, amount to BGN 1.143 million and BGN 3.735 million. The Company's obligation under the agreement is for a period of 15 years and is repaid in equal quarterly installments. The obligation is secured by a special pledge on tangible assets of the Company at a total market value of approximately BGN 3.1 million and a forth-rank contractual mortgage on land owned by the Company. As of 30 June 2007 the outstanding portion of the loan amounts to approximately BGN 5.4 million.

Regarding the Company's obligations towards related parties, see *Related Party Transactions*.

Restrictive Covenant

Some of the aforementioned agreements contained restrictive covenants to the benefit of the creditors, including prohibition for the Company to engage in the following activities without the agreement of the respective creditors:

- disposal with real estate or other property;
- mortgaging of real estate;
- borrowing new funds (at a total value exceeding EUR 1 million per year);
- making investments (at a total value exceeding EUR 1 million per year).

Failure on behalf of Sparky Eltos to comply with any of the aforementioned obligations constitutes a default on the respective loan agreement, which shall render it callable prior to maturity.

RELATED PARTY TRANSACTIONS

In accordance with International Accounting Standard 24 *Related Party Disclosures*, transactions between related parties exist where one party to the transaction controls the other party to the transaction or may exercise significant influence over the other party in taking financial and operating decisions.

In the course of performing its operations Sparky Eltos has executed and continues to execute transactions with related parties. These transactions, however, are directed by the development of the Group as a whole and the specialization of the individual companies within it. Sparky GmbH, Germany (**Sparky GmbH**) supplies materials from German manufacturers, which it obtains at more favorable conditions, being a German company. Sparky Eltos sell to Cyprus-based SG Logistics Limited (**SG Logistics**) production intended for the Middle East and certain customers in Russia, while Sparky Trading EOOD (**Sparky Trading**) manages all other distribution on the local and foreign markets. The directors of Sparky Eltos believe that the specialization achieved through separation of manufacturing from distribution, as well as the separation of the distribution itself on different markets, and also the centralization of certain functions servicing the whole Group, is an important element in the Company's competitive strategy and helps achieve better operating results, including for Sparky Eltos.

The Company believes that related party transactions are executed at market conditions. As of the date of preparation of the present prospectus there are no transactions of unusual type or at unusual conditions that have been executed by Sparky Eltos with related parties.

The table bellows shows the proportion in percentage of the more significant related-party transactions to the turnover of the Company for January – June 2007:

Related party	**Type of relatedness**	**Share in the turnover of Sparky Eltos**
Sparky AD, Ruse	under common control with Sparky Eltos	0.71%
SG Logistics	under common control with Sparky Eltos	5.78%
Sparky Trading	under common control with Sparky Eltos	73.35%
Sparky GmbH	under common control with Sparky Eltos	5.96%

Source: Sparky Eltos

Agreements with Related Parties

Agreement with Sparky Group

On 27 December 2002 Sparky Eltos enters into an agreement with the Majority Shareholder Sparky Group (then Sparky Bulgaria AD), under which the latter undertakes to perform certain services for the Company, including preparation of reports under IAS, preparation and implementation of internal control procedures, training of Sparky Eltos staff in finance and accounting. For the services performed Sparky Group receives monthly remuneration of BGN 7,500.

Agreement with Sparky Trading for Exclusive Sales Rights

An exclusive sales rights agreement between the Company as manufacturer and Sparky Trading as agent is effective as of 1 January 2007. Under this agreement Sparky Trading EOOD holds exclusive rights for the sale of manually operated power tools and all other goods manufactured by Sparky Eltos under the *Sparky* trademark for the international market. The agent sales the goods on its own behalf and at its own risk. The quantities and range of products are determined once per year and specifically each quarter. Prices are determined once per year and are subject to change upon agreement between the parties. The value of the items sold is paid by the agent to Sparky Eltos within 90 days of the delivery. The agent is responsible for the organization of after-sales service as well as for service past the warranty period of the items delivered, for which the Company gives the agent a discount of 3% of the value of each invoice. The company has undertaken not to enter into agreements for export of manufactured products with other local or foreign entities. The agreement is concluded for a period of 5 years and may be extended automatically for a further 5 years if none of the parties objects. Sparky Trading receives compensation for its activities on the basis of a difference between the buy and sale price.

Loan Agreement with Sparky GmbH

On 20 December 2001 an agreement was entered into between Sparky GmbH (at that time a majority shareholder in Sparky Eltos) as creditor and Sparky Eltos as borrower at the amount of EUR 980,000 at an interest rate of 6 months EURIBOR + 3.5%. The loan was extended for partial funding of the expansion of manufacturing capacities in compliance with environmental requirements. The full amount of the loan has been utilized. The maturity of the obligation is on 15 November 2009. The loan is not secured and is secondary to the loan from DEG, extended with the same purpose, see *Material Indebtedness - Loan Agreement with DEG of 2001*. As of 30 June 2007 the outstanding principal of the loan is to the amount of EUR 350,000.

Loan Agreement with SG Logistics, Cyprus

On 29 June 2004 an agreement was entered into between SG Logistics, Cyprus as creditor and Sparky Eltos as borrower at the amount of EUR 1.6 million, at an interest rate of 3 months EURIBOR + 2.8%. The loan was extended for additional funding of the expansion of manufacturing capacities under the project co-funded by DEG in 2004 with EUR 3 million. The full amount of the loan has been utilized. The maturity of the obligation is on 15 June 2010. The loan is not secured. As of 30 June 2007 the outstanding principal of the loan is to the amount of EUR 1.12 million.

Regarding additional information for Sparky Eltos's related party transaction see Notes 6, 14 and 15 to the Company's financial report for 2006 and the respective notes to the financial reports of Sparky Eltos for 2005 and 2004.

DESCRIPTION OF THE SHARES AND APPLICABLE BULGARIAN LEGISLATION

Introduction

The following is a description of the principal rights attaching to the Shares, certain material provisions of the Articles of Association of Sparky Eltos, of the Bulgarian Public Offering of Securities Act of 1999 and the Company Act of 1991 in effect at the date of this document.

The Public Offering of Securities Act requires the shares issued by a public company to be in a registered and a dematerialized form. Respectively the issue and transfer of the Shares takes effect upon the registration of the issue or transfer, as the case may be, with the Central Depository, which is the Bulgarian registrar of dematerialized securities.

Pursuant to Art. 11 of its Articles of Association, the Company may issue only ordinary (non-preferred) shares. In this connection each share issued by the Sparky Eltos is ordinary (non-preferred) and entitles its holder to one vote at the General Meeting of Shareholders, to dividend in the event of distribution of the profit, and to participate in a liquidation of the Company in proportion to its nominal value.

Scope of activities

The scope of activities of Sparky Eltos, as defined in the Articles of Association, is: scientific and applied activities, design and construction activities, commercial, representative and manufacturing activities in the areas of electrical equipment and engines for electrical equipment, specialized equipment and collectors, other machine-building products and any other activities permitted by law.

Share Capital

As of the date of this document, the share capital of Sparky Eltos is BGN 14,000,000, comprising 14,000,000 shares with a par value of BGN 1 each. All the issued shares are fully paid-up. After the successful completion of the Offering, the share capital of Sparky Eltos is expected to stand at BGN 16,800,000, comprising 16,800,000 shares with a par value of BGN 1 each.

The following table shows the share capital and the number of issued shares of Sparky Eltos according to its Articles of Association and as of the dates indicated:

	Number of issued Shares	**Paid-up share capital (in BGN)**
31 December 2004	2,000,000	2,000,000
31 December 2005	2,000,000	2,000,000
31 December 2006 (1)	2,000,000	2,000,000
6 July 2007	14,000,000	14,000,000

(1) On 6 July 2007 the Lovech District Court enters the increase of the capital of the company through the issuance of 12,000,000 registered dematerialized shares.

Issuance of Shares

Pursuant to the law, the Articles of Association of the company may provide for delegation of authority to the Board of Directors, or to the Management Board under a two-tier management system, to increase the capital by issuing new shares within five years of the delegation of authority. The share capital of a Bulgarian public company may be increased by:

- the subscription of shares pursuant to a rights issue;
- the issue of shares on conversion of a convertible bond; or

- the payment of a dividend *in specie* in the form of new shares in the relevant company.

In general, any increase in the capital of Sparky Eltos requires prior shareholder approval. To increase the capital, the Articles of Association require a resolution to be passed by the holders of at least two-thirds of the shares present at the General Meeting of Shareholders. In addition, the Articles of Association of the Company contain an authorisation of the Management Board to increase the capital up to BGN 3,000,000 /three million/. The capital increase by the Management Board may be carried out without a specific delegation of authority to this end by the General Meeting of Shareholders for each specific instance, entirely on the grounds of the authority granted to it by the Articles of Association, within two years after the registration of the authorization. The Management Board's decision to increase the capital determines the amounts and the goals of each increase, the number and type of the new shares, the rights and privileges attaching to them, the terms and conditions for transfer of rights under the meaning of §1, item 3 of POSA issued against the existing shares; the deadline, terms and conditions for subscribing to the new shares; the amount of the issue value and the deadline, terms and conditions for its payment; the investment intermediary assigned to carry out the subscription, see *"General information – Capital increase and approval of this Prospectus"*.

Capital Increase through a Rights Issue

A public offering of shares pursuant to a rights issue requires the publication of a prospectus containing detailed information relating to both the company in question and the shares offered. The prospectus must be approved by the Financial Supervision Commission.

For more information, see "*Description of the Shares and Applicable Bulgarian Legislation—Pre-emption Rights*".

Issue of Convertible Bonds

The procedure for a rights issue also applies to an issue of convertible bonds by a public company.

A resolution of the shareholders in the General Meeting approving a new issue of convertible bonds is effective only upon the approval of the new issue of bonds by the General Meeting of the holders of existing convertible bonds. A resolution to issue convertible bonds may be adopted by the General Meeting of the Shareholders of the Company.

Stock in Shares

Within three months of the adoption of the audited annual financial statements of the public company for the preceding financial year, the shareholders in a General Meeting may resolve to increase the Company's capital through capitalization of profit and reserves within the amounts permitted by law. The newly issued shares are distributed *pro rata* amongst the shareholders based on their existing share prior to the capital increase. Only persons who hold or have acquired issued shares at the date which is fourteen days after the shareholder resolution to increase the capital, corresponding to the date for dividend right acquisition (the "**Ex-dividend date**"), have the right to be issued with new shares.

Registration of the Increase in Capital

An increase in the capital effected by any of the above methods is effective at the date of the registration of the capital increase at the Bulgarian company register. The new shares are issued with the registration of the capital increase at the Central Depository.

Pre-emption Rights

Each holder of Shares has pre-emptive rights to subscribe for any new shares of a capital increase *pro rata* to its existing holdings of Shares. Under Bulgarian law, pre-emption rights of shareholders in public companies may not be misapplied in any way.

Pre-emption rights on a rights issue accrue to those persons registered as shareholders at the Central Depositary on the Ex-dividend date. However, the pre-emption rights may instead accrue to those persons registered as shareholders at the Central Depository on the 7th day after the promulgation in the *State Gazette* of the announcement of the offering of new shares and rights related to them if the Management body resolves on the capital increase. On the business day following the Ex-Dividend date (or the seventh day after the announcement, as appropriate) the Central Depositary opens rights accounts in the name of the relevant shareholders based on the register at the Central Depositary at such date.

The first date on which pre-emption rights may be exercised to subscribe for new shares or traded on the BSE is required to be specified in the announcement of the public offering. The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this time are offered to the public by means of an auction organised by the BSE five business days after the final date on which rights may be traded. This auction is open for a period of one day. Any right acquired pursuant to the auction must be exercised within ten business days of the auction.

Share Buy-backs

Sparky Eltos may buy back its shares subject to the approval of the General Meeting of Shareholders. The details of the redemption (including the maximum number of shares to be redeemed, the procedure for redemption and the timetable, which may be up to 18 months) must be specified in the resolution. The shareholders' resolution must be entered into the Bulgarian company register and promulgated in the *State Gazette*.

A share buy-back may only take place if the Company's net asset value after the buy-back would be equal to or higher than the total of its share capital, its reserves and all other funds which Sparky Eltos is required to maintain pursuant to its Articles of Association.

As a public company, Sparky Eltos may reduce its share capital by purchasing and cancelling its own shares. A public company may only buy back more than 3% of its issued shares during any calendar year by way of a tender offer. The public company is obliged to notify preliminary the Financial Supervision Commission and to disclose to the public pursuant to the Regulated Information disclosure requirements, information on the shares subject to buy-back within the 3% limitation.

The aggregated nominal value of the Shares repurchased may not exceed 10% of the issued share capital of Sparky Eltos and the Company will transfer any excess shares above the 10% limit within three years. If Sparky Eltos holds more than 10% of its share capital at the end of that three year period, it must cancel the Shares until repurchased shares in its capital decrease to 10% or less.

Reduction of Share Capital

The shareholders in the General meeting may resolve to reduce the issued share capital of Sparky Eltos. The Company's Articles of Association require a resolution to be passed by a majority of two thirds of holders of the shares present at the meeting.

To reduce the Issuer's capital, the shareholders' resolution must be published in the *State Gazette*, explaining that Sparky Eltos is obliged to repay or secure its obligations towards any creditor that objects to the reduction in writing within three months. The reduction of capital is required to be entered into the Bulgarian company register after the end of this three-month period and is effective at the date of such entry. Payments to shareholders resulting from the reduction of capital may be made only after the entering of the reduction of capital in the company register and the repayment or creation of security in favour of any objecting creditors.

The above provisions do not apply if the reduction of capital is effected: in order to cover losses; by redemption of fully paid-up shares for no consideration; or against payment not exceeding the sum of earnings for the relevant year, accumulated retained earnings and excess of reserves or other funds over mandatory requirements less retained losses and instalments which the Issuer is obliged to pay as reserves.

Transfer of Shares

Transfer of Shares is perfected as of its registration in the Central Depository. Any agreement for purchase or sale of Shares, issued by a public company, may be concluded only on a regulated security market (i.e. on the BSE) or registered on a regulated security market (BSE) by an investment intermediary, licensed by the Financial Supervision Commission or by an investment intermediary having its seat in another member state if the latter has notified the Commission pursuant to the rules set forth in the law on its intention to perform activities in Bulgaria through a branch or by means of free rendering of services.

Inheritance or endowment of shares is effectuated as of transaction's registration in the Central Depository by an investment intermediary, acting as a registration agent. Shares may be pledged with filing of a non-possessory registered pledge with the Central Depository.

Major Transactions and Transactions with Interested Parties

Under the Public Offering of Securities Act of 2000, persons who manage or represent a public company may not, without the prior shareholders' approval, enter into transactions as a result of which: (i) the company acquires, transfers, receives or grants for use or creates a security interest over the company 's fixed assets; (ii) the company incurs obligations to a person or a group of related persons; or (iii) receivables are due to the company from a person or a group of related persons, in each case, where the value of the transaction exceeds:

- one-third of the lower of the value of the company 's assets in its last audited or its last prepared balance sheet (major transactions); or
- in the case of a transaction with an "interested party" - 2% (0.2% if receivables are due to the company) of the lower of the value of the company 's assets in its last audited or its last prepared balance sheet;

For the purposes of the above, the following are considered to be "interested parties" (1) the members of the Management Board and the members of the Supervisory Board of the Company, (2) any procurator of the Company and (3) any person who directly or indirectly is entitled to at least 25% of the votes at the General Meeting of Shareholders of the Company or who otherwise controls the company, when such person or a person related to such person:

- is a party or an intermediary to the transaction, or the transaction is carried out for its benefit; or
- directly or indirectly is entitled to at least 25% of the votes at a General Meeting of a person who is a party or an intermediary to the transaction, or the transaction is carried out for its benefit, or controls a legal entity, which is a party or an intermediary to the transaction, or to the transaction is carried out for its benefit; or

- is a member of the Management or Supervisory Board, or a procurator of a legal person falling within the preceding paragraph.

In the case of a transaction to acquire or dispose of fixed assets, a majority of three quarters or more of the votes cast at the General Meeting of Shareholders is required to approve the transaction and, in all other cases, a simple majority of the votes cast is required. Any interested parties-shareholders are not permitted to vote at the General Meeting on these issues.

Transactions between a public company and interested parties which do not require prior shareholder approval are subject to prior approval by the Company's Management body, with any interested members of the Management body not permitted to vote.

In determining whether prior shareholder approval for transactions of considerable value or related party transactions is required, individual transactions of the public company with a person or related group of persons which individually are below the threshold for requiring shareholder approval are aggregated with other transactions with the same person or group of related persons in the previous three calendar years.

Any transaction involving an interested party may only be executed at market price.

Pursuant to the law a prior shareholders' approval of the transactions specified above is not required:

- for transactions effected in the ordinary course of the public company's business, including agreements for bank loans and collateral unless an interested party is involved or otherwise participates in such transactions;
- for loans from a holding company and for deposits from a subsidiary company, where the terms are no less favourable than those available in the domestic market;
- where there is a common enterprise agreement under the Public Offering of Securities Act of 1999.

If a major transaction or a related party transaction requires prior shareholders' approval, the Management body of a public company is required to provide a report to the General Meeting on the expediency and the transaction contemplated.

Any transaction with an interested party or major transaction which is entered into in breach of the requirements of the Public Offering of Securities Act of 1999 is void.

Meetings of Shareholders

Convening of a General Meeting of Shareholders

The Management Board and the Supervisory Board of Sparky Eltos each have the power to convene a General Meeting of Shareholders. Shareholders owning at least 5% of the Shares also have the power to require convening of a general meeting. In addition, shareholders owning at least 5% of the Shares for at least a three month period are entitled to add items to the agenda for the General Meeting. In the event Sparky Eltos were to fail to call a General Meeting on the request of the required number of shareholders, the District Court is empowered to call or to empower a representative of the shareholders to call the General Meeting

An annual General Meeting of Shareholders is required to be held within six months of the end of the Company's fiscal year. An extraordinary General meeting of shareholders may be convened at any time by giving the requisite notice to shareholders. This notice must contain the name and registered office of Sparky Eltos, the place, date and time of the meeting, the type of the meeting (i.e. annual or extraordinary), information of the formalities that must be complied with for participation at the meeting and for exercise of voting rights, an agenda and draft resolutions; information on the total number of the shares and voting rights at the general meeting, as well as the right of the shareholders to participate at the General Meeting. The notice and other documents related to the agenda of the General meeting must be filed at the Financial Supervision Commission, BSE and the Central Depository no later than 45 days prior to the date of the General meeting. Any items added to the agenda at the request of a shareholder owning more than 5% of the shares must also be filed at the Financial Supervision Commission. The Financial Supervision Commission and BSE make the notice and the other documents related to the agenda available to the public, typically by publishing these documents on their respective websites. The notice must also be published in the *State Gazette* and in one national daily newspaper at least 30 days before the date of the General Meeting, and the other documents related to the agenda must be made available to shareholders at Sparky Eltos on the same day. General Meetings of Shareholders are held in Lovech, being the city in which the Company's registered office is located.

Each Share confers the right to cast one vote at the General Meeting. The Articles of Association prohibit the Company from issuing preference shares, including such ones entitling their holders to more than one vote. The right to vote at the General Meeting is conferred on those persons registered at the Central Depository as shareholders 14 days prior to the date of the meeting (the "**Voting Record Date**"). A purchaser of shares registered at the Central Depository after the Voting Record Date is not entitled to vote. The Central Depositary submits a list of the shareholders at the Voting Record Date to Sparky Eltos. The entry of the persons in this list is the only prerequisite to their participation in the General Meeting of Shareholders and to the exercise of the voting rights attaching to their shares. Persons entitled to vote may attend the meeting in person or through an authorised proxy who is granted a power of attorney. The power of attorney to the proxy must be explicit, certified by a notary public and comply with other legal requirements. Sparky Eltos is obliged to submit the written power of attorney, on paper or in electronic form where applicable, together with the other documents related to the agenda, or upon request after the convening of the General Meeting. No members of either the Supervisory Board or the Management Board may act as a shareholder's proxy at the General Meeting. If the members of the Management Board and Supervisory Boards are not shareholders, they may attend and speak at a General Meeting but do not have voting rights.

Quorum

The Articles of Association of Sparky Eltos provide that the shareholders in the General Meeting can pass resolutions if the holders of at least one half of the capital are represented at the meeting. In the event that a quorum is not present, the meeting is adjourned and a new meeting may be scheduled not earlier than 14 days from the date of the adjourned meeting. The re-convened meeting may pass resolutions irrespective of the number of Shares represented at the meeting.

Majority

The Articles of association of Sparky Eltos provide that the following shareholders' resolutions require the approval of two-thirds of the voting shares present at the meeting:

- any amendment to, or supplementing of, the Articles of Association;
- an increase or reduction in the share capital;
- transformation or winding-up of the company.

The approval of three-quarters of the shares represented at the General Meeting of Shareholders is required for the approval of transactions for acquisition of and disposal with fixed assets of a value representing over 1/3 of the assets of Sparky Eltos and in case of participation of related parties – over 2% of the assets. Also, the approval of three-quarters of the shares voted at the general meeting of shareholders is required to resolve to increase the capital by way of capitalization of profit and/or reserves.

All other shareholders' resolutions may be passed by a simple majority of the Shares voted at the General Meeting.

Any transformation of Sparky Eltos requires the prior written approval of the Financial Supervision Commission. The Financial Supervision Commission has the power to impose administrative enforcement measures, including compulsory instruction or injunction, on Sparky Eltos if any resolution of the shareholders in the General Meeting or resolution of the Management Board or Supervisory Board is found to be illegal. The Financial Supervision Commission may apply enforcement measures if a resolution of the Management Board or Supervisory Board would be detrimental to the interests of shareholders in the Company or other investors.

Amendments of and supplements to the Articles of Association and the winding-up of Sparky Eltos are effective as of the entry of the resolution into the Bulgarian company register. Any increase or reduction of capital, transformation, appointment or removal of a member of the Management Board or the Supervisory Board and the appointment of a liquidator only take effect for third parties at the date of the entering of the relevant resolution into the Bulgarian company register.

Dividends

A resolution relating to the distribution of earnings of Sparky Eltos in the form of dividends is subject to the approval of the shareholders in the General meeting following the approval of the audited annual financial statements for the relevant financial year. Distribution and payment of interim dividends is not permitted.

Dividends may only be paid if the Company's total assets less long-term and current liabilities and less the proposed dividend is not less than the sum of the share capital, reserves, and other funds Sparky Eltos is required to maintain, each as set out in the Issuer's audited annual financial statements. Payment of dividends may be made up to the sum of earnings for the relevant financial year, plus accumulated retained earnings and the excess of reserves and other funds maintained by Sparky Eltos over mandatory requirements less retained losses and instalments which the Company is obliged to pay to reserves and other funds. A public company is obliged to commence payment of approved dividends to its shareholders within three months from the date of the General Meeting of Shareholders at which the resolution approving the annual financial statements and for distribution of the earnings in the form of a dividend is passed.

Each Share entitles its holder to a dividend proportional to the Share's nominal value. The right to receive a dividend is held by each person registered at the Central Depository as a shareholder in the Company at the Ex-Dividend date. The Central Depositary submits a list of the shareholders at this date to the Company. The entry of the persons in this list is the only prerequisite to payment of a dividend. Persons who are entitled to receive dividends but who fail to exercise their right within five years from the due date for payment forfeit their right to payment.

Liquidation

The Company may be wound-up by:

- the approval with two-thirds majority from the holders of all Shares present at the General Meeting;
- when Sparky Eltos has been declared bankrupt; or
- a resolution of the court of a procedure initiated by the public prosecutor if (i) the scope of activities of the Company is illegal, (ii) the Company’s total assets less long-term and current liabilities are less than the share capital for a period of one year during which no resolution for a reduction of the capital, transformation or winding-up is passed by the shareholders in General Meeting, or (iii) the number of members of the Supervisory Board or the Management Board falls below the minimum legal requirement for six consecutive months.

Following the winding-up of the Company (other than in the case of bankruptcy proceedings) a liquidation procedure is followed. A liquidator is appointed and its remuneration is approved by the shareholders in the General Meeting (other than in the case of compulsory liquidation). A liquidator is obliged to give effect to the current transactions of Sparky Eltos, to collect the receivables of the Company, and to sell its assets and to satisfy the claims of creditors. A liquidator is obliged to invite creditors to claim against the Company by an announcement in the State Gazette and by a notice sent to all known creditors. Distribution of the assets of Sparky Eltos, if any, to its shareholders may be made only after six months from the date of this announcement and the satisfaction of all creditors' claims.

Each Share entitles its holder to participate in the liquidation *pro rata* to the Share's nominal value. This right arises only if, after the liquidation of the Company and satisfaction of all other creditors' claims, assets are available for distribution to the shareholders. According to its Articles of Association, the Company is not permitted to issue preference shares entitling their holders to preferential rights on liquidation.

The Supervisory Board and the Management Board

The Articles of Association of Sparky Eltos provide for a two-tier management system consisting of a Supervisory Board and a Management Board. Members of the Supervisory and Management Board may be either individuals or legal entities.

The Supervisory Board

Bulgarian law and the Articles of Association of Sparky Eltos provide that a Supervisory Board must consist of at least three and not more than seven persons. The members of the Supervisory Board may be appointed and dismissed by a resolution passed by a simple majority of the present Shares at the General meeting. The shareholders in the General Meeting set their remuneration and approve the financial guarantee which each member of the Supervisory Board must give as a security for his or her obligations. Under Bulgarian Public Offering of Securities Act of 1999 at least one third of the members of the Supervisory Board of Sparky Eltos should be independent (i.e. they cannot be: (i) employees of the Company; (ii) shareholders that hold directly or indirectly through related parties at least 25% (twenty five percent) of the voting rights in the General Meeting, or are parties related to Sparky Eltos; (iii) persons having a long-term commercial relationship with the Company; (iv) members of a management or controlling body, procurators or employees of a commercial company or other legal entity falling under (ii) and (iii) above; (v) persons related to another member of the Management of Supervisory Board of Sparky Eltos).

The main powers of the Supervisory Board are the appointment and dismissal of the members of the Management Board, the approval of the resolutions of the Management Board to delegate the power to represent Sparky Eltos to one or more of its members, and the on-going supervision of the activities of the Management Board. The approval of the Supervisory Board is also required for resolutions of the Management Board for:

- acquisition of and disposal with title to real estate, as well as mortgaging of immovable property of the Company or using it as other type of security, except in the cases under Art. 114, para. 1 and para. 2 of POSA;
- closing or transfer of enterprises, or significant parts thereof, as well as acquiring interests in other companies, except where the explicit approval of the Company’s General Meeting is required;
- material change in the Issuer’s scope of activities;
- material organisational changes;
- long-term collaboration of a significant meaning for Sparky Eltos or termination of such a collaboration;
- opening of branches and representative offices in Bulgaria or other countries.

The Articles of Association of Sparky Eltos require a quorum of at least half of all members of the Supervisory Board and provide for resolutions to be passed by a majority of no less than half of its members.

The Management Board

Bulgarian law and the Articles of Association of Sparky Eltos provide that the Management Board should consist of at least three and not more than nine persons. The members of the Management Board may be appointed and dismissed by the Supervisory Board. The remuneration and the guarantees for the management of members of the Management Board are approved by the General Meeting of Shareholders.

The Articles of Association of the Company provide that a quorum of at least half plus one of all Management Board members is necessary for a valid meeting and for passing of resolutions. A majority of no less than half of the Board members present at the meeting is required for passing resolutions. The Management Board can, with the approval of the Supervisory Board, authorise one or more Executive Directors to represent Sparky Eltos and to take responsibility for its operative management. Board members may be re-elected without limitation and be dismissed at any time by the Supervisory Board. The members of the Management Board and of the Supervisory Board of Sparky Eltos: (i) must not have been convicted of certain crimes; (ii) must not have been a member of the management or supervisory body or unlimited liability partner in a company terminated by reason of bankruptcy if there were any unsatisfied creditors.

Certain Disclosure Requirements under Bulgarian Law

Pursuant to the Public Offering of Securities Act of 1999, each shareholder who has acquired or transferred directly and/or pursuant to Art. 146 POSA voting rights in the General Meeting of the Sparky Eltos, shall be obliged to inform the Company and the Financial Supervision Commission if: (1) as a result from the acquisition or transfer his or her voting rights reach or fall below 5% or increase or decrease by 5% or a multiple of 5%; (2) his or her voting rights reach or fall below the limits set in item (1) as a result from circumstances related to changes in the total voting rights based on the information disclosed by Sparky Eltos upon each change in the capital pursuant to Art. 112e POSA.

The voting rights are calculated on the grounds of the total number of the voting shares notwithstanding the limitations on the execution of the voting rights. The calculation is made separately in respect of each class of shares.

In some cases the requirements for disclosure do not apply, for instance in respect of the voting rights attached to shares that are acquired solely for the purpose of implementation of the clearing and settlement within the frames of the common settlement cycle /the latter cannot be longer than 3 business days after execution of the transaction/ as well as in respect of shares held by custodians if they are authorized to exercise the voting rights attached to the shares only in accordance with the order of the client given in writing or in electronic form.

The obligation for disclosure has to be implemented immediately, but not later than 4 business days after the day that follows the day in which the shareholder or the beneficiary owner of the voting rights: (1) understands the fact of the acquisition, transfer or the possibility to exercise the voting rights in accordance with Art. 146 POSA, or in which he or she, under the specific circumstances, was required to understand, regardless of the date on which the acquisition or transfer were made or the possibility to exercise the voting rights arose; (2) is notified that his or her voting rights have reached or fallen below 5% or a multiple of 5% of the voting rights at the General Meeting of the Company as a result from circumstances related to changes in the total number of the voting rights based on the information, disclosed pursuant to Art. 112e POSA. The persons who have the right to acquire, transfer or exercise voting rights in the General Meeting of Sparky Eltos in the events provided for by Art. 146, para. 1 POSA are also obliged to disclose the above information.

Sparky Eltos is obliged to disclose to the public the information received pursuant to this section within 3 business days after the day, in which it has been notified.

The members of the management and supervisory bodies of a public company are obliged to declare to the company, the Financial Supervision Commission and to BSE: (i) the legal entities in which they own, directly or indirectly, 25% or more of the voting rights or over which they exercise control; (ii) the legal entities in which they participate in the supervisory or management bodies or are appointed as procurators; and (iii) the present and future transactions in respect of which they believe that they could be qualified as "interested" parties. Failure to comply with the above requirements is an administrative offence under Bulgarian law.

THE REPUBLIC OF BULGARIA

The information contained in this section has been taken from documents and other publications released by, and presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Bulgaria. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, Sparky Eltos only accepts responsibility for accurately reproducing such extracts as they appear in this section. It accepts no further or other responsibility in respect of such information.

Background

Bulgaria is a parliamentary republic located in the Balkans occupying an area of 110 thousand square kilometres. Bulgaria has a population of approximately 7.7 million people. Approximately 85% of the population consists of ethnic Bulgarians, with 9% of the overall population being of Turkish origin. Approximately 86% of the population is Christian and the official language is Bulgarian, a Slavonic language written in the Cyrillic alphabet. Sofia, the country's largest city with a population of more than 1.2 million, is the capital of Bulgaria. Plovdiv, a city in south central Bulgaria with a population of approximately 400,000 people, and Varna, a port in the Black Sea with a population of approximately 350,000 people, are the two next largest cities. Bulgaria is divided into 28 regions for administrative purposes.

Political Overview

Following the Second World War, a communist pro-Soviet regime was established in Bulgaria. In November 1989, after the collapse of the communist system, Bulgaria became a parliamentary republic. From 1989 until 1997, despite changes introduced by conservative, centrist and left-wing governments, the Bulgarian Socialist Party (the former Communist Party) maintained a certain influence over political developments in the country. Following the severe banking and economic crisis of 1996 and 1997, the interim government (as provided by the Bulgarian constitution) of Stefan Sofiansky began a wide-ranging economic reform program, which was continued by the government of the Union of Democratic Forces (the "**UDF**") — a broad anti-communist coalition, which won a majority of the seats in parliament in mid-1997. By the end of 1999, political support for the UDF had eroded, delaying the implementation of the necessary structural measures required for the reform of the Bulgarian economy.

In April 2001, the former king of Bulgaria, Simeon Saxe-Coburg-Gotha, formed the Simeon II National Movement (the "**SNM**") and won a majority of seats in the parliamentary elections in June 2001. The SNM formed a coalition government along with the Movement for Rights and Freedom (the "**MRF**"), a party that represents the interests of Bulgaria's Turkish minority. In November 2001, Georgi Parvanov, the candidate supported by the Coalition for Bulgaria (a coalition led by the Socialist party) was elected as president for a five-year term, defeating the country's former president Petar Stoyanov, whose re-election was endorsed by the SNM and the UDF. In June 2005, the Coalition for Bulgaria (a coalition headed by the Socialist party) won 82 parliamentary seats out of a total of 240, with the SNM and the MRF winning 53 seats and 34 seats, respectively. As the Coalition for Bulgaria did not by itself gain control of a majority of votes, a wider coalition government was formed later in 2005 with the Coalition for Bulgaria joining forces with representatives of the SNM and the MRF, with Sergei Stanishev, the leader of the Bulgarian Socialist party, being elected as Prime Minister. Georgi Parvanov won a second five-year term in October 2006. The next presidential election is due in October 2010, while the next parliamentary election is due in June 2009.

The current government led by Sergei Stanishev has announced a comprehensive economic reform program, the main objectives of which are further European integration, stimulation of economic growth and social responsibility.

The legislative system in Bulgaria follows the continental model. The Bulgarian constitution has supremacy over all other legislative acts. Bulgaria's Constitutional Court's main duty is to review the consistency of parliamentary legislation with the Bulgarian constitution. All international agreements ratified according to constitutional procedure and published in the State Gazette have binding force and have supremacy over national law. The recognition of foreign judgments by the courts depends upon both establishing reciprocity and the observance of the mandatory guidelines of the Civil Procedure Code.

Bulgaria was invited to join NATO at the NATO summit in Prague on 22 November 2002. On 18 March 2004 the Bulgarian Parliament ratified the North Atlantic Treaty and Bulgaria was officially recognised as a member of the alliance on 29 March 2004. In 2004, Bulgaria completed negotiations to join the EU. The accession treaty was signed in Luxembourg on 25 April 2005 and Bulgaria became a member of the EU on 1 January 2007. Despite Bulgaria's EU membership, the European Commission will continue to monitor Bulgaria's progress in reforming the judiciary and fighting corruption. Bulgarians face greater restrictions on working abroad than did the previous wave of EU entrants.

The Bulgarian Economy

Background

Before 1989 Bulgaria had a centrally planned economy oriented towards the Council for Mutual Economic Assistance ("COMECON") countries. The collapse of COMECON in 1991 devastated the Bulgarian economy. In the early 1990s, the government embarked on an ambitious economic reform program, whose progress was stalled by political instability and lack of decisiveness in economic policy. In the mid-1990s, the growing losses of Bulgarian corporations and banks, coinciding with increased domestic debt payments and Bulgaria's weak current account position, led to significant currency outflows resulting in a severe financial crisis in 1996. The value of banking sector deposits declined from USD 7.4 billion to less than USD 1.8 billion (at March 1997) and inflation peaked at a monthly rate of 242.35% in February 1997. The Bulgarian economy emerged from the crisis in 1997 following the provision of special facilities by the IMF.

The Currency Board Arrangement

As part of the IMF sponsored reforms, a Currency Board arrangement was established in July 1997 through the Bulgarian National Bank Act. The Lev was pegged to the Deutsche mark at the rate of DEM 1 = BGL 1,000. Following the introduction of the Euro and the redenomination of the Lev, the Lev was pegged to the Euro at an exchange rate of BGN 1.95583 to EUR 1.00. The Lev is a fully convertible currency and is backed by the foreign exchange and gold reserves of BNB, which stood at EUR 8.9 billion at 31 December 2006 and EUR 9.6 billion at the end of the second quarter of 1997. Following the implementation of the Currency Board arrangement up to the date of this document, the Lev has not been subject to any significant speculative pressures.

The Currency Board arrangement stipulates a strict set of policies and procedures to facilitate the stability of the exchange rate. The entire Lev monetary base is supported by equivalent foreign exchange reserves held by BNB. The latter is not permitted to finance public sector deficits unless increased levels of international reserves back an increase in the money supply. BNB is also not allowed to buy or conduct repurchase agreement operations on Bulgarian government bonds. Lending to the banking system by BNB is restricted to cases of a liquidity crisis and up to the amount of foreign reserves held in excess of the monetary base. These restrictions reduce BNB's ability to act as lender of last resort for the banking system. The sole monetary policy instrument available to BNB is setting the mandatory reserve rate for commercial banks.

GDP

Following the financial crisis of 1996-1997, GDP has grown steadily since 1998 mainly as a result of increased consumer demand, domestic and foreign direct investments and increased exports. The actual increase in the GDP is expected to remain over 6% having in mind the fastly growing consumption, dynamic development of the financial sector and increased investors' interest after accession of the country to the common European market.

	1999	2000	2001	2002	2003	2004	2005	2006
Nominal GDP *(BGN in millions) ...*	23,790	26,753	29,709	32,402	34,628	38,823	42,797	49,091
Nominal GDP *(USD in billions)………*	12.9	12.6	13.6	15.6	19.9	24.1	26.4	31.5
Real GDP growth rate *(%)…….*	2.3	5.4	4.1	4.9	4.5	5.7	5.5	6.1
Nominal GDP per capita *(USD)…..*	1,577	1,542	1,718	1,978	2,548	3,101	3,396	4,088

Source: National Statistical Institute

Bulgaria' s GDP is evenly balanced between the primary and industrial sector and the services sector, though there is an underlying growth trend in the weighting of the services sector. In 2006, services accounted for 48.8% of GDP, industry accounted for 25.6% and forestry and agriculture for 7%.

Inflation

Following the stabilisation of hyperinflation that emerged following the banking crisis in 1996 and 1997 and the implementation of the currency board arrangement, annual inflation has been relatively low. Annual (end of period) inflation for 2001, 2002 and 2003 was 4.8%, 3.8% and 5.6% respectively. Bulgaria ended 2004 with annual headline consumer price inflation of 4%. In 2005, inflation increased to 6.5% as a result of increasing fuel prices and rising food prices following severe flooding during the year.

Sharp increases in excise duties on alcohol and tobacco at the beginning of 2006 caused the prices of these goods to jump. An additional aggravating factor was the upward movement of world oil prices. As a result, at the end of 2006 inflation stood at 6.5%. Average inflation for 2006 was 7.3%.

Employment, Wages, and Pensions

The restructuring of state-owned enterprises and a significant downsizing of the public sector contributed to high unemployment rates immediately after the 1996-1997 crisis. Reaching 17.9% at the end of 2001, unemployment has fallen steadily, to reach 16.3% at the end of 2002, 13.5% at the end of 2003, 12.2% at the end of 2004, 10.7% at the end of 2005, 9.1%, at the end of 2006 and 8.4% at the end of April 2007. This drop is due to increased demand for labour on the primary labour market. The increasing number of the employed persons is the main reason for significant increase in the factor of the economic activity of the population, which has reached 51.3% in the first quarter of 2007 and is by 2.4 points higher than for the same period of 2006.

The tendencies observed in the past 2006 continue and develop since the beginning of 2007. The increased growth of the employment results mainly from the increased economic activity of the private sector. The number of the employees in the private firms and enterprises has increased by 9.6% in the first quarter of the present year or by 201,000 as compared with the first quarter of the previous year. It is possible to explain partly the growth of the employment in the private sector by the continuing process of "legalisation" of the grey labour market, which has developed mainly in 2006 as a result from the reduction of the taxes and social security payments owed by the employers.

Since 2000 average wages have been rising steadily. Average monthly wages in the country were BGN 292 in 2004, BGN 324 in 2005, BGN 355 in 2006 and reached BGN 384 in the first quarter of 2007.

The average monthly wage, as reported by the National Statistics Institute, is usually higher in the public sector than in the private sector. It is widely believed that the disclosed income figures underestimate the actual level of disposable income of Bulgarian nationals, as they do not take into account significant proceeds arising from the operation of the informal economy.

The pension system was reformed in January 2000 with the aim of stabilising the existing pay-as-you-go system, and a fully-capitalised mandatory supplementary pension insurance scheme managed by private insurance funds was introduced. Bulgaria has a three-pillar pension system comprised of the state insurance institute, the mandatory private pension funds, and voluntary private pension funds.

Balance of Payments, Foreign Trade and Foreign Direct Investments

The Bulgarian current account deficit hit a record EUR 3.978bn or 15.8% of GDP in 2006. It has increased by EUR 1.356 bn. or 3.8% of GDP. The main reason for the worsening of the current account deficit is the increasing trade misbalance. Bulgaria's trade deficit also hit a record 21.8% of GDP versus 20.2% a year earlier, mainly due to the negative balance of trade in crude oil, oil derivatives and natural gas, which stands at EUR 1.72bn. (7.1% of GDP) and which constitutes 32.6% of the overall trade deficit of the country. A positive sign for the development of exports and the competitive power of the Bulgarian economy is the accelerating of the annual exports up to 26.6% which for the first time for the last 3 years outstripped the nominal growth of the imports.

According to last reviews of historical data of the balance of payments, during the last 8 years the country is attracting enough foreign direct investment (FDI) to cover the shortfall - for 2006, equivalent to 103.5% of the current account deficit. The growing investor interest in the country generates the necessity for import of investment goods and raw materials and in the same time, by ensuring of income to Bulgarian citizens stimulates the import of consumer goods.

The attracted equity capital represents 52% of the FDI for 2006. In this year the foreign investments in immovable property reached EUR 1.2 billion. The investments in the processing industry are at the amount of EUR 777 million. The sector of the financial intermediation has attracted EUR 627 million. From geographic point of view the biggest investments for the period are made by the United Kingdom (EUR 686 million), Holland follows by EUR 668 million and Austria (EUR 448 million). From the beginning of this year the investors' interest in Bulgaria is retained – the resources attracted for the first five months reached EUR 1.5 billion.

Selected items from the balance of payment of Bulgaria for the listed years

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**I-V 2007**
				(EUR in millions)			
Imports ………………….	7492.6	7940.9	9093.8	10938.4	13876.1	17372.7	7626.3
Exports ………………….	5714.2	6062.9	6668.2	7984.9	9466.3	11982.6	4962.2
Trade Balance …………..	(1778.3)	(1878.0)	(2425.6)	(2953.5)	(4409.7)	(5390.1)	(2664.0)
Current Account ………...	(855.2)	(402.5)	(972.3)	(1306.9)	(2621.9)	(3977.9)	(2590.9)
Financial Account ………	755.0	1842.9	2325.1	2294.9	3560.1	5395.6	2630.5
FDI in Bulgaria …………	903.4	980.0	1850.5	2735.9	3103.3	4104.5	1530.3
Overall Balance of Payment …………………	425.3	717.1	630.3	1414.6	569.3	1785.6	315.8

Source: Bulgarian National Bank

Consumer goods, raw materials, investment goods and mineral fuels and oils accounted for 14.9%, 36.7%, 26.2% and 21.6% respectively of total imports in 2006. Close to half of all imports for 2006 (46.8%) came from the EU-25 countries, compared to 49.6% for 2005. Rising energy prices continue to drive up the share of imports from Russia, which reached 17.2% of all imports for 2006, compared to 15.6% in 2005 and 12.6% in 2004.

Raw materials have the biggest share in Bulgaria's exports (45.6% of total exports in 2006), of which almost half (47.4%) are metals. Consumer goods make up 24.6% of all exports, the main items being clothing and footwear. Exports of energy resources made up 12.9% of total exports in 2006. Bulgaria's main export market is the European Union (55%), with Italy, Germany and Greece as the top three partners, accounting for 28.5% of total exports in 2006. Ahead of the three European countries is Turkey, which was Bulgaria's leading export destination for 2006 with 11.4% of total exports.

For the first five months of 2007 the commercial balance has worsened again reflecting in increase of current account deficit up to EUR 2590.9 million. This information has to be interpreted attentively because of the changes in the manner of reporting the export trading through the system Intrastat within the common EU market conditions. According to the BNB analyses for the period January – March 2007 90.4% of the firms obliged to file Intrastat declarations have implemented this obligation in respect of the exports; in respect of the imports 88.7% of the firms have filed declarations for the same period. 42.7% of the declarations of the imports do not contain information on the exported goods and 41.3% do not contain data of the imported goods. The data will gradually be revised and the expected delay is approximately three months after the end of the reported period.

Public Finance

Since 2003 the government has pursued a steady policy of accumulating budget surpluses to curb the balance of trade deficit and the deficit in the current account of the balance of payments. Despite the long period of implementation, this policy has failed as yet to produce the desired results – deficits are on a steady upward trend and the economy bears an extra tax and social security burden which limits its export potential. In the past year public finance was characterized by stability and the persistence of major trends established in previous periods. Among these are: the increased actual quota of reallocation through the budget, sustained chronic budget surpluses.

Fiscal surpluses are channelled to the fiscal reserve which at the end of 2006 amounted to BGN 1.8 bn. Its level was by 35.9% higher than this from the preceding year. The primary and internal balances have increased by 21.4% and 23.7% amounting to BGN 2.4 billion and respectively BGN 2.3 billion. The realisation of these surpluses was possible because of the good implementation of the income part as well as the limitation of a portion of the expenses.

For the first five months of 2007 the consolidated budget surpluses amounted to BGN 1.85 billion, which is higher than for the same period in the preceding year by 50.3%. The increase is due to the increase of income by 16.4% amounted to BGN 9.4 billion. The increase of the expenses was by 6.6% (amounting to BGN 7.3 billion). The primary and internal balances increased respectively by 53.5% and 58%. A positive change in fiscal policy was the lower corporate tax, down from 15 to 10 per cent, in effect from 1 January 2007.

Indebtedness

The increase in the gross external debt is directly related to the increased capital inflow in the country. The private unsecured debt at the end of 2006 stood at 60.4% of GDP); the respective level for the previous year being 45.4%. The largest share in this increase belongs to credits extended to non-financial institutions and intra-company loans. At the same time, the external debt of the public sector continues to go down reaching 17.9% of GDP (23.6% for 2005).

The tendencies from the previous year were sustained and at end May 2007 the state and state guaranteed debt were reduced to 3.9 billion euro, which constitutes a reduction by 16% per annum. The payment in advance of all remaining debt to ICF made in April (BGN 450 million) has a contribution to this situation, resulting in reduction of the external debt by 6.4%.

During the last years the credits granted to the private sector grows fast and this results in increase of the indebtedness of the private sector to the bank system of up to 57.5% of GDP in the middle of 2007.

According to BNB: "Nevertheless the quality indexes of the credit portfolios sustain good, the fast rate of growth of the bank credits leads to accumulation of a higher risk in the bank system." This was the motivation of the Management Board of BNB for imposing of restrictions on the monetary conditions through change in the level of the minimal mandatory reserves maintained by the banks in BNB. Starting from 1 September 2007 these reserves will be 12 per cent of the banks' deposit base. The increase is by 4 points or BGN 1.4 billion calculated over a deposit base amounting to BGN 35 billion. As a weakness could be considered the fact that the same approach has been used in respect of all banks, notwithstanding the different quality of their credit exposure.

NATO and European Union Accession

Bulgaria was invited to join NATO at the NATO summit in Prague on 22 November 2002. On 18 March 2004, the Bulgarian Parliament ratified the North Atlantic Treaty and Bulgaria was officially recognised as a full member of the alliance on 29 March 2004.

Bulgaria established diplomatic relations with the EU in 1988. In 1993, the European agreement on association was signed before entering into force in 1995. In December 1995, Bulgaria submitted its application for EU membership, and two years later preliminary negotiations were launched. The Commission presented its first regular report on Bulgaria's progress towards accession in November 1998. The second report, released in 1999, recommended that formal negotiations be opened.

Accession negotiations between Bulgaria and the EU started on 15 February 2000. Bulgaria concluded its accession talks on 15 June 2004, six months ahead of schedule. The technical closure of talks on the final two negotiating chapters had been completed on 14 June 2004.

In April 2005, the European Parliament gave its overwhelming support to Bulgaria's EU bid. On 25 April 2005, Bulgaria signed the country's EU Accession Treaty, which was ratified by parliament on 11 May. In October 2005, the Commission's monitoring report said that Bulgaria must serve six months of further probation and until April or May 2006 it must "take immediate and decisive corrective action" in the fields of judiciary reform and fighting high-level corruption.

In the next monitoring report, dated 16 May 2006, the Commission confirmed that Bulgaria had continuously been fulfilling the political criteria laid down in Copenhagen, and that the country was a functioning market economy. At the same time, on account of a total of six policy areas which continue to give rise to "serious concern," the Commission decided to review Bulgaria's reform progress in October 2006 and to decide based on that review whether the originally scheduled January 2007 accession date was still feasible. In its final monitoring report on 26 September 2006, the Commission gave the green light for Bulgarian accession in 2007, but insisted on further reforms. If the requirements are not met, the Commission can invoke safeguard measures, which could lead to the suspension of funds.

The final monitoring report by the Commission indicates tougher conditions on Bulgaria's entry in 2007. The country will be closely monitored on the remaining areas of concern. These include the justice system, the fight against corruption, politic co-operation and the fight against organised crime, money-laundering, integrated administrative control system for agriculture (IACS), transmissible spongiform encephalopathies (TSE), and financial control.

If these requirements are not met, the Commission has the right to invoke safeguards. Under the Accession Treaty, there are three types of safeguard measures: economic, internal market and JHA safeguards, which can be invoked up to three years after accession. These could involve food export bans and cuts to EU funds, such as agricultural and structural funds, as foreseen in the report. In addition, there are transitional arrangements, such as the restriction of free movement of workers from new member states. Also the Commission can take remedial measures to ensure the functioning of EU policies. This concerns the areas of food and air safety, agricultural funds, the judiciary and the fight against corruption.

Although the discussed possibility of imposing safeguard measures in some of the above mentioned areas, they were not imposed and Bulgaria was granted full membership in EU as of January 1st 2007.

The following aim of the central bank and the Bulgarian government is the entry of the country in the European Exchange Rate Mechanism 2 and implementation of the Maastricht criteria within 2-year term, which is a necessary condition on accession to the Economic and Monetary Union and introduction of the Euro. The expectations that the entry in ERM 2 shall coincide with the accession to the EU fell short and the negotiation process continues up to now. According to many analysts' expectations Bulgaria shall be included in ERM 2 in 2008 but this shall depend to a great extent on the opinion of Ecofin on the steady development of the economy as a whole. After entry in ERM 2 the main challenge that the country shall face shall be compliance with the inflation criterion.

BULGARIAN SECURITIES MARKET INFORMATION

Capital Markets

The Bulgarian Stock Exchange

The trading of public securities is conducted on the Bulgarian Stock Exchange, which is currently the only regulated stock market in Bulgaria. At the end of 2006 the market capitalisation of the companies traded on the BSE reached 31.2% of Bulgarian GDP (source: the updated official prognosed GDP for 2006 of the Ministry of Finance).

The Bulgarian Stock Exchange was created following the merger of the largest stock exchanges in Bulgaria and was licensed in October 1997. The Bulgarian government controls 44% of the Bulgarian Stock Exchange's capital. Ownership of 20,000 shares in the Bulgarian Stock Exchange gives a shareholder the right to membership of the exchange.

Equity securities can be traded either on the Official Market or the Unofficial Market of the Bulgarian Stock Exchange. In general terms, the Official Market is aimed at large public companies with high market capitalisation and high volume of trade in their shares, whilst the Unofficial Market targets smaller, less well established companies. However, many Bulgarian blue chip companies have chosen to list on the Unofficial Market where the regulations are easier. The Exchange also organises a "primary market" for IPO's and a "privatisation market" for the sell-off of residual state-owned shares.

Despite strong growth in capitalisation and liquidity during the last 2 years, the Bulgarian Stock Exchange is still considerably smaller and less liquid than other European stock exchanges. During the last years efforts have been made to provide the Bulgarian Stock Exchange with transparency, equal treatment of all parties, market price information, remote trading, a T+2 settlement period and information disclosure and dissemination requirements.

In addition to domestic equity securities, a variety of financial instruments can be traded on the Bulgarian Stock Exchange, including corporate, government, municipal and mortgage-backed bonds and foreign securities through the trading of Bulgarian depositary receipts. In addition, "compensatory instruments", a type of security issued by various public bodies to persons who did not receive restitution of nationalised assets after 1990, had been listed on the Bulgarian Stock Exchange since 2002.

Significant interest has been demonstrated lately by a number of foreign stock exchanges in the acquisition of the government-owned stake in the Bulgarian Stock Exchange or simply in establishing partnerships with the Bulgarian bourse. Several of them, including the Nordic operator OMX, Deutsche Boerse, Borsa Italiana, Warsaw Stock Exchange, Athens Stock Exchange and Vienna Stock Exchange, have officially announced to be potential bidders if the government decides to open a privatisation procedure for the state stake. In the same time, the Bulgarian Stock Exchange already has co-operation agreements with the Vienna, Athens, Istanbul, Skopje, Bucharest and Zagreb stock exchanges. The Bulgarian Stock Exchange also frequently participates in specialised events, organised by the Federation of Euro-Asian Stock Exchanges and the Federation of European Stock Exchanges.

As of 31 December 2006, the market capitalisation of the companies traded on the Bulgarian Stock Exchange was BGN 5,643 million on the Official Market and BGN 9,672 million on the Unofficial Market. At 31 March 2007, the market capitalisation of the companies traded on the Bulgarian Stock Exchange was BGN 4,520 million on the Official Market and BGN 13,718 million on the Unofficial Market. The total stock exchange turnover for the year ended 31 December 2006 was BGN 3,384 million and the total turnover for the period since the beginning of 2007 until 31 March 2007 was BGN 1,353 million.

At 31 March 2007, 355 companies of equity securities were registered for trading on the Bulgarian Stock Exchange, of which 16 companies were registered for trading on the Official Market and 339 on the Unofficial Market.

The table below sets out the turnover and capitalisation of equities on the Bulgarian Stock Exchange for the years 2000 to 2006.

	2000	2001	2002	2003	2004	2005	2006
Official Market Equities							
Turnover (*BGN in millions*)................	8.6	4.4	14.4	60.9	476.0	370.2	843,5
Market capitalisation *(BGN in millions)…*	283.5	195.0	252.9	986.7	1,374.9	2,148.3	5,642.5
Unofficial Market Equities							
Turnover *(BGN in millions*).................	23.6	37.8	69.6	120.0	184.8	929.6	1,449.9
Market capitalisation *(BGN in millions)…*	1,003.0	909.0	1,122.3	1,742.0	2,658.3	6,285.7	9,671.5

Source: Bulgarian Stock Exchange

The Development of Bulgarian Capital Markets

In the last decade, most of the efforts in the Bulgarian capital markets field have been concentrated on the stabilisation of the legal framework, the trading infrastructure and the institutions involved.

In 1995, more than 20 stock exchanges were operating in Bulgaria. However, these stock exchanges were unregulated and lacked effective supervision over insider trading. In July 1995, Parliament adopted the Securities, Stock Exchanges and Investment Companies Act, and in 1996 the government appointed members to Bulgaria's Securities and Stock Exchange Commission.

The development of the Bulgarian capital markets in the period from 1996 to 1999 demonstrated the need for more extensive regulation. In December 1999, the Bulgarian parliament adopted the Public Offering of Securities Act, which came into effect in February 2000. The Public Offering of Securities Act was aimed at providing protection to investors, developing a stable, transparent and efficient capital market and ensuring equal access and treatment for all participants. After the adoption of the Public Offering of Securities Act, the Securities and Stock Exchange Commission was renamed the National Securities Commission. Further developments to improve securities regulation, notably corporate governance provisions, shareholders' approval of significant transactions, directors' duties and continuing disclosure obligations for public companies were introduced in June 2002.

During the last few years in the EU accession process both the Bulgarian parliament and the Bulgarian securities regulator accomplished much work in order to harmonise Bulgarian capital market legislation with the EU directives on market abuse, prospectuses, transparent reporting obligations, investment services, UCITS and other relevant capital markets directives. The amendments of the Public Offering of Securities Act in May 2005 constituted a further step in that direction. From 1 January 2007 amendments to the Public Offering of Securities Act came in effect with the purpose of implementation the provisions of Council Directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) 85/611/EEC; Directive 97/9/EC of the European Parliament and of the Council on investor-compensation schemes; Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC; and from 3 July 2007 also the provisions of Directive 2004/109/EC of the European Parliament and of the Council on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, and Directive 2004/25/EC of the European Parliament and of the Council on takeover bids.

In 2007 the efforts for harmonization of the Bulgarian law with the European continue by adoption of the Markets in Financial Instruments Act which implements the provisions of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC; Commission Directive 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment intermediaries and defined terms for the purposes of that Directive, and Directive 2006/49/EC of the European Parliament and of the Council on the capital adequacy of investment intermediaries and credit institutions (recast).

At the end of 2002, the Financial Supervision Commission was created, taking over the regulatory functions of the National Securities Commission, the Insurance Supervision Agency and the Social Insurance Supervision Agency. The legislation to introduce this change entered into force on 1 March 2003 and the members of the Financial Supervision Commission were nominated by the Bulgarian parliament shortly thereafter.

The Financial Supervision Commission is an independent state body, whose seven members are elected by the Bulgarian parliament for the term of six years. The Financial Supervision Commission's members are the chairperson, three deputies in charge of the three areas which the Financial Supervision Commission supervises (namely, capital markets, insurance markets and social insurance activities) and three other members.

The Financial Supervision Commission regulates public offerings of, and trading in, securities and the conduct of the securities markets, investment intermediaries, the Central Depositary and investment companies. Under the Public Offering of Securities Act the Financial Supervision Commission must approve any public offering of securities. Following the approval of the Financial Supervision Commission, the board of the Bulgarian Stock Exchange resolves on listing of equity securities.

The Financial Supervision Commission exercises control over listed companies, issues and withdraws licences, gives confirmations and approvals, carries out inspections of the operation of banks in connection with their activities as investment intermediaries and depositories and exchanges information with the BNB, other state institutions and bodies, and non-governmental organisations related to the securities market.

Prior to 1 March 2003, the National Securities Commission was a member of the International Organisation of the Securities and Stock Exchange Commissions. This membership passed to the Financial Supervision Commission on 1 March 2003.

The Official Market and Unofficial Market

General

Securities may be traded on the Bulgarian Stock Exchange either on the Official Market or on the Unofficial Market, but not on both markets simultaneously. Securities may not be listed for trading on the Unofficial Market if (1) an application has been made to list those securities on the Official Market, (2) such an application has been rejected or (3) the securities were previously listed on the Official Market and the Official Market listing is no longer effective. Since 1 December 2006, the Unofficial Market of Equities of BSE-Sofia was split into A and B segments. An issue of shares is transferred for trading from the Official Market of Equities or from the Unofficial Market of Equities Segment A to the Unofficial Market of Equities Segment B if certain minimum liquidity criteria are not met.

Under the Public Offering of Securities Act, all securities publicly offered and traded on the Bulgarian Stock Exchange must be in dematerialised form, registered at the Central Depositary and freely transferable. In addition, the Bulgarian Stock Exchange rules provide that securities must not be subject to any pledge or restraint and must not be blocked at the Central Depository, the relevant company of the securities must not be in a bankruptcy, administration or liquidation procedure or in the process of transformation and the relevant company must comply with the requirements of the Public Offering of Securities Act in all other respects.

Eligibility

The Rules of the Bulgarian Stock Exchange provide eligibility criteria depending on whether admission is sought for the securities to be admitted to Segment A or Segment B of the Official Market.

Segment A of the Official Market

To be eligible for admission to Segment A of the Official Market, the equity securities in question must have been:

- traded for at least one year on Segment B or for at least two years on the Unofficial Market; and
- the market capitalisation of the issue of the equity securities in question must be at least BGN 40 million, the relevant company must have been in business for at least five years and must have registered profits in at least 3 of the last 5 years, there must be at least 1,000 shareholders for shares in the issue and there must be at least a 25% free-float; and
- the average monthly turnover in this issue for the last 6 (six) months should be at least BGN 200,000, the average monthly volume traded for the last 6 (six) months should not be less than 20,000 shares and the average monthly number of trades for the same period should be at least 200;
- the issuer has obliged to perform activities in accordance with the Corporate Governance Code issued or approved by the stock exchange.

Segment B of the Official Market

To be eligible for admission to Segment B of the Official Market, the equity securities in question must have been traded for at least one year on the Unofficial Market and have a market capitalisation of at least BGN 20 million.

In addition, the company of the equity securities in question must have been in business for at least five years and must have registered profits in at least 2 of the last 5 years, there must be at least 500 shareholders for shares in the issue and there must be at least a 10% free-float.

Also, the average monthly turnover traded in this issue for the last 6 (six) months should not be less than BGN 100,000, the average monthly volume traded for the last 6 (six) months should not be less than 10,000 shares and the average monthly number of trades for the same period should be at least 100.

The issuer has also obliged to apply the principles of corporate governance set forth in the Corporate Governance Code issued or approved by the stock exchange.

The Unofficial Market

No further eligibility criteria need be met for listing on the Unofficial Market, Segment A and Segment B.

In particular, there are no eligibility requirements for listing on the Unofficial Market relating to the minimum market capitalisation of the issue, the minimum length of time the issuer has been in business, the minimum number of shareholders for the securities or the minimum free float.

Nevertheless, in respect of Unofficial Market some criteria for distinction of the most illiquid shares also apply.

The Board of Directors of the stock exchange resolves on moving issues of shares from the Official Market or from Unofficial Market, Segment A to Unofficial Market, Segment B in case during the last 6 months the average monthly turnover in the issue (without block and REPO transactions) was less than BGN 4,000 or the average monthly trades was less than 5.

Issue of shares which is traded on Unofficial Market, segment B can move to Segment A if the average monthly turnover for the last 6 months was at least BGN4,000 and in respect of the same period at least 30 trades took place. An application to the same effect can be filed in case the issuer and a market maker have entered into an agreement with subject ensuring of minimal liquidity.

Trading

The Bulgarian Stock Exchange is an electronic exchange and trades can be effected through its automated trading system either on the Bulgarian Stock Exchange trading floor or on a remote basis. The trading system is order-driven and is underpinned by a modified version of the NASDAQ based on Russian Trading System (known as the RTS). Buy and sell orders are entered into the trading system during each trading session and are automatically matched. Client orders have priority over brokers' own accounts and all trades are subject to a minimum quotation of BGN 0.001 (the third number after the decimal point). Orders outside these constraints are possible but require a special procedure and are valid only for the day they are made.

Securities on the Official Market are permitted a range of +/-15% in relation to their open price in any trading session, whilst those on the Unofficial Market are permitted a +/-30% range. The closing price of a security represents the volume weighted average price of all trades executed in the security during the trading session.

Types of orders permitted include market orders, which are buy and sell orders for a certain volume of securities at the best current available price, and limit orders, which are an order to buy or sell a predetermined amount of shares at a specified price. Limit orders are subdivided into "good until cancelled", "single execution" (day order) and "immediate" (fill or kill) categories.

Trading on the BSE adheres to "price and time priority". Market orders are executed before limit orders, as they are matched immediately upon entering the trading system, thus observing the "price priority" rule.

Transactions in shares and depositary receipts representing shares incur a transaction charge of 0.1% (VAT included) of the total value of the transaction to be paid to the Bulgarian Stock Exchange by both counterparties to the transaction.

The COBOS System

The Bulgarian Stock Exchange owns the intellectual property rights to its own internet-based application for secure and authorised real-time access to the trading systems of the Unofficial Market, known as the Client Order-Book Online System ("**COBOS**"). Orders are submitted to the trading system through COBOS and are identical to all other orders. Use of COBOS is restricted to investment intermediaries, their clients and the administrators of COBOS.

Disclosure

The Markets in Financial Instruments Act provides that listed companies are required to disclose price-sensitive information by the end of the business day following the day the event occurs or the company becomes aware of it. This information must be disclosed simultaneously to the Financial Supervision Commission and to the public.

Public companies are required to file their annual and quarterly reports (which set out their annual and quarterly financial statements) with the Financial Supervision Commission and to disclose the same information to the public. The annual report is also required to contain details of and changes in a company's auditors for the preceding three years, risk factors relevant to the company or its industry sector, an overview of the company's investments and business, an analysis of the most significant trends in production, sales and inventory, a discussion of the company's prospects for the current financial year, information about members of the Management and supervisory boards, senior management and employees upon whose work the company is dependent, any major shareholders and any related party transactions.

Settlement

Transactions executed on the Bulgarian Stock Exchange are considered finalised after the securities have been transferred and payment received. This is certified by a registration document issued by the Central Depositary.

Transactions are settled on a gross basis. Since June 2003, the settlement cycle has operated on a T+2 basis when the Real-Time Interbank Gross Settlement System (known as "**RINGS**") was introduced. RINGS is a computerised book-entry system that operates on a "delivery versus payment" basis, which means that the transfer of securities occurs simultaneously upon payment.

The Bulgarian Stock Exchange maintains a fund in order to secure payments relating to trades made on the Bulgarian Stock Exchange. This is funded by the constituent members of the Bulgarian Stock Exchange. Each member of the Bulgarian Stock Exchange is required to make an initial payment of BGN 200 (EUR 102) and monthly payments of 0.1% of the average value of the transactions executed by such member during the previous calendar month. When the value of the fund reaches 1% of the aggregate value of all the trades executed on the Bulgarian Stock Exchange in the previous year, no further instalments are required to be made until the next calendar year.

Indices

The first official index for the Bulgarian Stock Exchange was SOFIX. SOFIX was established on 20 October 2000 with an initial index value of 100. Its daily value is calculated as its base value is multiplied by the ratio of the sum of the corrected by the divisor, the weight factor and by the free-float of each company market capitalisations of all issues in the index portfolio as of the current moment, towards the sum of the corrected by the weight factor and the free-float market capitalisations as of the base moment. The market capitalisation of a company for the purpose of calculating the index is the product of the number of shares in issue and the volume weighted average price per share at the end of the trading session, but the market capitalisation of no company in the index portfolio can exceed 15% of the total SOFIX capitalisation.

The SOFIX index only includes the most liquid companies on the Bulgarian Stock Exchange markets. To be included in the index, a company must meet certain eligibility requirements: (i) its shares must have been traded on the regulated markets for at least three months, (ii) the market capitalisation of each issue must be at least BGN 50 million, (iii) the relevant company must have at least 500 shareholders, (iv) there must be at least 10% free float, (v) the value traded in each issue during the last 12 months should exceed BGN 5 million and (vi) the number of trades in each issue during the last 12 months should exceed 1,000 transactions. The number of the companies within the SOFIX portfolio could vary from 5 to 50. In 2006 SOFIX advanced strongly by approximately 48%, from 825.53 on the last trading day of 2005 to 1,224.12 on 22 December 2006.

On 1 February 2005 a second Bulgarian Stock Exchange index, BG40, was launched. It was also established with an initial index value of 100. The index comprises the shares of the forty companies traded most frequently during the previous six months. Unlike SOFIX, BG40 is price-weighted. During the last year BG40 increased 50% from 133.42 in end-Dec 2005 to 199.88 on the last trading day of 2006.

Currency Legislation in Bulgaria

The 1999 Bulgarian Currency Act (last amended in July 2006) sets out the legal regime for transactions and payments between local and foreign entities, cross border transfers and payments and the import and export of Bulgarian Leva and foreign currency. The provisions of Regulation (EC) 1889/2005 of the European Parliament and the Council apply in respect of imports and exports of cash. The discussion below sets out those aspects of the legal regime relevant to foreign nationals who invest in the Shares.

Pursuant to provisions of Regulation (EC) 1889/2005 (implemented by Ordinance No. 10/2003 of the Ministry of Finance), Bulgarian citizens or foreign nationals are allowed to import and export cash up to 10,000 Euro or its equivalent in other currency freely, without any obligation for declaring of the sums to the customs authorities. Imports and exports by local and foreign persons in excess of 10,000 Euro or its equivalent in other currency are required to be declared to customs authorities. The declaration contains data about the owner of the amounts and the recipient, the amount and type, the origin and purpose, and the type of the transportation and the route.

In addition, any person who exports sum in excess of BGN 25,000 or its equivalent in other currency has to submit a certificate issued by the National Incomes Agency certifying that this person has no overdue tax liabilities. Such a declaration shall not be required from foreign nationals who export a sum not exceeding the sum which they have declared to the customs authorities upon their last entry in the country.

A foreign national or entity transferring income (made up of capital gains and dividends) in excess of BGN 25,000 or the equivalent resulting from an investment in Bulgaria (including investments in shares and other securities and derivatives over securities issued by Bulgarian companies) or from the sale of such an investment is required to present documents evidencing the investment, its sale and all the payment of all due taxes thereon to the Bank effecting the transfer.

TAXATION

General Information

The general information set out in this section regarding some taxes payable in the Republic of Bulgaria, applies to the holders of Shares including residents and non-residents of Bulgaria for tax purposes.

Residents are either legal entities and non-personified companies registered in Bulgaria or individuals whose permanent residence is Bulgaria or who reside in Bulgaria for more than 183 days in each 365-day period. A resident is also a person whose centre of life interests (which is determined by the family, the property, the place of activities or the place of management of the property) is placed in Bulgaria, as well as a person, who is sent abroad by the Bulgarian State, its bodies and/or organizations, from Bulgarian enterprises, and the members of his/her families. Together they are referred to as "**Bulgarian Holders**".

Non-residents are persons, who do not comply with the above definition. Together they are referred to as "**Non-Bulgarian Holders**".

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder of Shares. Accordingly, it is recommended that potential investors consult their own tax advisers as to the overall tax consequences, including, the consequences under Bulgarian law and the treatment by Bulgarian authorities, of the acquisition, ownership and disposal of the Shares in their individual circumstances.

The information set out below, complies with the legislation in force at the date of issuance of this Prospectus and Sparky Eltos shall not carry out any liability about following amendments in the legislation and the normative order of the taxation of incomes from Shares.

Dividends

Under current Bulgarian law, payments of dividends by Sparky Eltos to Bulgarian Holders (except for Bulgarian commercial companies and sole merchants) and to Non-Bulgarian Holders are subject to a 7% withholding tax. Payments of dividends to Bulgarian commercial companies and sole merchants are not adjusted for tax purposes and are deducted from the tax financial result of these Bulgarian Holders pursuant to the provisions of the Corporate Income Taxation Act 2006 and the Natural Persons Income Tax Act 2006.

Payments of dividends by Sparky Eltos to a Non-Bulgarian Holder are not subject to withholding tax if the Non-Bulgarian Holder is:

- a resident for tax purposes in a member state of the European Union according to the legislation of this member state and is not a resident of a state outside the European Union pursuant to an income tax convention between the member state and a third state; subject to corporate income tax according to the legislation of said member state; and
- owns, including via a place of business in Bulgaria or in another member state of the European Union, at least 15 % of the issued Shares of Sparky Eltos for a period of at least two year.

Payments of dividends by Sparky Eltos to a place of business in a member state of the European Union under the following conditions:

- the place of business is subject to corporate income tax according to the legislation of said member state;
- the place of business is owned by another commercial or non-personified company subject to corporate income tax or by a foreign company from another member state of the EU or organization, subject to corporate income tax; and
- the commercial company or organization above owns, including via its place of business, at least 15 % of the issued Shares of Sparky Eltos for a period of at least two years.

If the two years of holding the major block of Shares have not expired as of the date of the resolution for dividend distribution the withholding tax may not be levied if a guarantee in favor of Bulgarian tax authorities is provided amounting to the withholding tax. Such guarantee is released after expiration of the two years term and if all conditions above are met.

Apart from the above exemption for owners of major blocks of Shares, a Non-Bulgarian Holder may be eligible for an exemption, refund or credit of all or part of the Bulgarian withholding tax should an income tax convention be in place between Bulgaria and his country of residence.

If the total amount of the dividends and any other income paid by Sparky Eltos to a Non-Bulgarian Holder of Shares exceeds BGN 50,000 in any year, the Non-Bulgarian Holder of Shares is only able to benefit from a reduced withholding tax rate according to an income tax convention if he is able to prove to the Bulgarian income tax authorities that:

- he is a resident of a country with which Bulgaria has entered into a relevant income tax convention (by submission of a certificate issued by the tax authorities of such country or otherwise in accordance with the common practice of the respective foreign tax administration);
- he is the beneficial owner of the dividends attaching to the Shares (by submission of an affidavit);
- he does not own a business and is not based in Bulgaria and the earnings from the dividends are not therefore related to an economic activity in Bulgaria (by submission of an affidavit); and
- he has complied with any applicable provisions of the relevant tax convention (by submission of official documents or other written evidence).

Additional documentation certifying the type, amount and grounds for the receipt of the dividends are also required to be presented to the Bulgarian tax authorities, e.g. a copy of the decision of the general meeting of the shareholders of Sparky Eltos approving the distribution of dividends and a copy of the share certificate. A relief claim form accompanied by the required documentation must be filed with the Bulgarian tax authorities for each Non-Bulgarian Holder immediately following the passing of the resolution approving the distribution of dividends by the general meeting of the shareholders of Sparky Eltos. If the Bulgarian income tax authorities refuse to grant relief or delay doing so, Sparky Eltos is obliged to apply the full 7% withholding tax on the payment of dividends. The holder of a Share whose application for withholding tax relief is refused may appeal the decision.

However, if the total amount of the dividends and any other income paid by Sparky Eltos does not exceed BGN 50,000 in any year, the Non-Bulgarian Holder is not obliged to file a relief claim form with the Bulgarian income tax authorities. He is required only to submit to Sparky Eltos the above documents certifying the grounds for application of the tax convention by Sparky Eltos.

There is no taxation on stock dividends, i.e. the distribution of the Company's profits in the form of additional newly issued shares.

Capital Gains

There is no capital gains tax on sales of Shares on the Bulgarian Stock Exchange or in relation to a tender offer under the Public Offer of Securities Act.

This tax exemption does not apply to gains arising from sales of Shares in transactions which are executed "over-the-counter" via block transactions or other transactions arranged in advance and subject solely to registration on the Bulgarian Stock Exchange. Capital gains realized by non-Bulgarian Holders of Shares from "over-the-counter" transactions in Bulgaria are subject to similar Bulgarian tax rules as apply to dividends, except for the amount of the withholding tax. Unless an income tax convention is applicable, a 10% withholding tax is applicable upon the positive difference between the sale price and the proven acquisition price. Capital gains realized by Bulgarian Holders of Shares from "over-the-counter" transactions are subject to taxation pursuant to the general rules of the Corporate Income Taxation Act 2006 and the Taxation of the Individuals' Income Act 2006.

Transfer Taxes

There is no Bulgarian stamp duty or other similar tax payable upon a transfer of Shares.

SUBSCRIPTION AND SALE

Sparky Eltos has resolved to increase its capital by issuing up to 2,800,000 New Shares offered for public subscription within the terms and conditions set forth in this Prospectus (the "**Offering**", respectively the "**Capital Increase**"). The Capital Increase shall be deemed to be successful if at least 2,280,00 New Shares are subscribed for.

Pursuant to the Public Offering of Securities Act of 1999 and this Prospectus, "subscription" for New Shares means the unconditional and irrevocable explicit statement for acquisition of New Shares made by an investor. The subscription for New Shares shall be deemed to be completed after payment of their Issue Price by the investor.

Under Bulgarian law the New Shares shall be deemed issued only after entry of the Capital Increase at the Company Register and the registration of the New Shares at the Central Depository. Immediately following these registrations and the subsequent registration of the New Shares at the Financial Supervision Commission the Company and/or the Lead Manager shall apply for admission of the New Shares for trading on the BSE.

The Offering shall be managed by UniCredit Bulbank (the "**Lead Manager**") and UniCredit Bulbank shall perform functions in compliance with the requirements set forth in the Bulgarian law and regulations in respect of public companies, and in accordance with the mandate agreement entered into by and between UniCredit Bulbank and the Issuer (the "**Mandate Agreement**").

The Lead Manager undertakes to render its best efforts for promoting the Offering and facilitating local and foreign investors who want to subscribe for the New Shares. The Lead Manager shall accept subscription orders from investors and shall perform certain procedural and technical actions within the Offering, as provided for in the Bulgarian law, the Rules of the Central Depository and this Prospectus.

The Mandate Agreement contains the following further provisions:

1. Sparky Eltos shall pay the Lead Manager a commission fee calculated as a percentage of the sum, which is specified as equal to the total issuance value paid against the subscribed New Shares. The applicable percentage negotiated by the Lead Manager and the Issuer is 2.0%. All expenses in connection with the execution of the Mandate Agreement, including expenses for carrying out legal research, road show and fees in connection with the Capital Increase are shall be covered by the Lead Manger.
2. The Mandate Agreement provides for certain requirements to be met as a pre-condition for the obligations of the parties to become effective. These conditions are typical for an agreement of this nature and include, amongst others, the accuracy of the representations and warranties under the Mandate Agreement and this Prospectus having been approved by the Financial Supervision Commission prior to the Offering. The Lead Manager will be able to terminate the Mandate Agreement in certain circumstances that are typical for an agreement of this nature. These circumstances will include the occurrence of certain material changes in the condition (financial or otherwise), business prospects, business affairs or earnings of the Company and certain changes in financial, political or economic conditions in the Republic of Bulgaria.
3. Sparky Eltos has given customary representations and warranties, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and in relation to the contents of this Prospectus.

Lockup Agreements

The Company and the Majority Shareholder have entered into Lockup Agreements, specifically the Majority Shareholder have entered into Lockup Agreements, under which the Majority Shareholder declares it will not, for a period of 6 months following the date of entry of the Company's Capital Increase into the Company Register, directly or indirectly: (a) offer, pledge, sell, sell options, or come to an agreement to sell, provide an option, right or warrant for purchase, deposit into a depository institution or otherwise transfer or alienate Shares or securities that can be converted to or exercised or exchanged for Shares, or (b) conclude swap or other agreements or transactions, which transfer, fully or partially, directly or indirectly, the economic risk of ownership of the Shares, regardless whether the swap or other transactions described in (a) and (b) above are executed by means of a delivery of Shares or other securities, in cash or otherwise.

Sparky Eltos, on its part, undertakes for a period of 6 months not to distribute, issue or come to an agreement to issue Shares or securities specified in para. (a) above.

Determination of the Issue Price

The Management Board of Sparky Eltos, in accordance with the law and the authorization provided for in the Articles of Association, has determined a fixed Issue Price of BGN 16.00 per share. In accordance with the local and international practice, the Issue Price has been determined with consideration of the current market price of the Shares on the BSE, and with regard to certain other factors, including the potential investors' interest in the Issuer's Shares and, in particular, in the New Shares, the prevailing market conditions and the objective of achieving an active and liquid market for the Shares.

Following is information on the highest and lowest price of shares of Sparky Eltos for the periods listed here-in-below:

Average weighted price of the Shares of Sparky Eltos on Bulgarian Stock Exchange

	Highest *(BGN)*	**Lowest** *(BGN)*
For the year 2006 ……………………………………………………………….	1.41	1.22
For the 1st quarter of 2007	3.00	1.33
For the 2nd quarter of 2007 ……………………………………………………..	10.205	2.856
For the period 1 July – 30 August 2007 ………………………………………...	22.00	9.38

Source: Bulgarian Stock Exchange

Subscription for the New Shares

General

Place and Addressees of the Offering

The New Shares shall be offered to the public only in Bulgaria. Both local and foreign investors may participate in the Offering, save as when such participation is prohibited by the applicable law; US nationals could take part in the Offering only to the extent such participation is allowed by Regulation S. Foreign investors who intend to subscribe for the New Shares should consider the applicable law according to their jurisdiction.

Apart form the restrictions above Bulgarian and foreign investors may subscribe for New Shares on equal footing and within the terms and conditions set forth here-in-below.

Pre-emptive Rights

The existing shareholders of the Company possess by virtue of law preemptive rights to subscribe for the New Shares in proportion to the number of the Shares held by them prior to the Capital Increase. These preemptive rights are incorporated in securities ("**Rights**"), which shall be allocated to the existing shareholders. The Rights can either be sold or exercised by means of subscribing for New Shares. Within the Offering one New Share shall be subscribed against 5 (six five) Rights. Each person can subscribe at least one New Share and not more than such number of Shares, which is equal to the number of the allocated and/or purchased Rights, divided by 5 (five) and rounded down to a whole number. Only a whole number of Shares can be subscribed for.

If the existing shareholders do not want to exercise by subscription, in whole or partially, the allocated Rights, they can offer for sale these Rights on the BSE within the period specified below. The Rights which are not exercised until the end of the first stage of the subscription shall be offered for sale on an open auction organized *ex officio* on BSE. Investors who are not existing Sparky Eltos shareholders or who are existing shareholders, wanting to subscribe for more New Shares than being entitled to by their pre-emptive rights, can buy Rights on the BSE during the Righs trading period and/or on the BSE open auction (presuming that such Rights will be available for sale).

Other

Sparky Eltos and the Lead Manager have not and do not intend to specify ratios, tranches and quantities of New Shares for distribution among specific categories of investors. It is not envisaged within the Offering more than 2,800,000 New Shares to be offered and issued.

Depending on investors' interest in the Offering the Major Shareholder will consider the number of New Shares to subscribe for, if it decides to subscribe for New Shares at all; however, it is possible that Sparky Eltos will subscribe for more than 5% of the New Shares.

Commencment of the Offering. Rights Issue

Pursuant to the Public Offering of Securities Act of 1999 the pre-emptive rights to participate in the Capital Increase shall pertain to the persons who are existing shareholders of Sparky Eltos (i.e. who own Shares registered at their personal or client sub-accounts at the Central Depository) on the 7th day following the date of the publication of the public offering announcement for the New Shares in the *State Gazette* and in the national daily newspaper Pari ("**Offering Announcement**"). The Offering Announcement may be published only after this Prospectus is approved by the Financial Supervision Commission. Sparky Eltos expects the Offering Announcement to be published on or around 5 October 2007, which is the commencement of the. Offering.

On the business day following the expiration of the above 7-day term after the Offering Announcement publication the Central Depository shall allocate Rights to the shareholders by opening accounts for Rights in the name of the shareholders of Sparky Eltos according to the data in its register for shareholdings in the Company. One Right shall be issued and allocated for each existing Share.

Rights Trading Period. First Stage of the Subscription

The initial date for transfer of Rights and subscription of New Shares through the Lead Manager is the second business day following the expiration of 7 days from the promulgation of the Offering Announcement in the *State Gazette* and the publication in a national daily newspaper (*Pari*). In case the Offering Announcement is promulgated and published on different dates, the initial date shall be the second business day after expiration of 7 days from the second publication. The initial date of the subscription and trading in rights on the BSE is expected to occur on or around 16 October 2007.

The Rights trading deadline is the first business day following 14 days as of the Rights trading period initial date (expected date: on or around 31 October 2007). Pursuant to the Rules of the Bulgarian Stock Exchange the last date for execution of BSE transactions with Rights is 2 business days prior to the Rights trading deadline specified in the previous sentence (expected date: on or around 29 October 2007). *End of the first stage of the subscription:* the owners of Rights, either allocated or purchased on BSE may subscribe for the respective number of New Shares not later than the Rights trading deadline (expected date: on or around 31 October 2007). Investors should note that all Rights not exercised by subscription of New Shares until expiration of the Rights trading deadline shall be offered for sale on an special *ex officio* open auction organized on BSE.

Second Stage and End of the Subscription

An open auction shall be organised on the 5th business day following the Rights trading deadline (expected date: on or around 7 November 2007). On the open auction will be offered for sale all Rights, which have not been exercised by subscription of New Shares until expiration of the Rights trading deadline.

End of the second stage (and the subscription as a whole): the first business day following the expiration of 15 business days as of the day, on which expires the Rights trading deadline (expected date: on or around 22

November 2007). Until the end of the subscription the persons who have purchased Rights via the open auction can exercise such Rights by subscription of the corresponding number of New Shares.

Subscription of New Shares before or after the subscription period shall be void.

Prolongation of the Subscription

Sparky Eltos is permitted by law to prolong once the term of the Subscription by up to 60 days, after making the respective amendments to this Prospectus, notifying the Financial Supervision Commission and disclosing information on the prolongation as required by law. Sparky Eltos does not intent to prolong the term of the Subscription.

Terms and Conditions for Transfer of Rights

The transfer of Rights through sale (Rights trading) is effected on the Unofficial Market of BSE. Persons who want to sell Rights need to place sell orders with the investment intermediary where they have their Rights account opened. Persons who want to buy Rights need to place buy orders with an investment intermediary – member of the BSE. The provisions of the rules of the Central Depository shall apply to acquisition of Rights by other methods (such as exchange or endowment).

On the 5th business day after the deadline for transfer of Rights Sparky Eltos, via the Lead Manager UniCredit Bulbank, shall place for sale by the open auction these Rights which have not been exercised by subscription of New Shares until expiration of the Rights trading deadline, see above. Sparky Eltos shall distribute the proceeds from the sale of the unexercised Rights, reduced by the expenses for the sale, in proportion between the holders of the Rights. The proceeds from the sale of the Rights are credited to a special account opened with the Central Depository and cannot be used until entry of the Capital Increase at the company register. At the beginning of each business day during the subscription the Central Depository shall announce information about the Rights, which have been exercised until the end of the preceding business day.

Terms and Conditions for Subscription of Shares

Subscription Orders

The subscription for New Shares shall be made by Rights-holders placing written subscription orders (**Orders**) with the investment intermediary – members of the Central Depository, at which the respective investor's Right account is opened.

The investment intermediaries that have accepted Subscription Orders of New Shares will have to notify immediately the Lead Manager on this circumstance, within the terms and conditions provided for in the law.

The investors who have received Rights credited to their personal accounts at the Central Depository will have to apply for transfer of the Rights to sub-accounts opened at the Lead Manager or other investment intermediaries before exercising the Rights.

The acceptance and execution of the Orders shall be made in accordance with the terms of each specific agreement between the investor and the respective investment intermediary.

Validity of the Subscription Order

The subscription for New Shares shall be deemed to be valid only if made by a shareholder owning Rights or by other persons who purchased and are in possession of the Rights at the moment of the subscription, up to maximum possible number of shares in accordance with the ratio Rights/New Shares specified above, and if the total Issuance Value of the subscribed shares is paid within the terms and conditions as specified below. Upon partial payment of the Issue Price only such number of New Shares in respect of which the total Issue Price is fully paid up will be deemed to be subscribed. The Issue Price shall be credited to a special bank account opened in the name of Sparky Eltos with UniCredit Bulbank and the details of which will be notified in the Offering Announcement. The Issue Price shall have to be credited to the special bank account at the latest on the final date of the subscription (the subscription deadline as specified above).

Irrevocable Subscription Orders

Under Bulgarian law the investor is not allowed to withdraw his/her Subscription Order but is entitled to a refusal of the subscribed New Shares within the terms and conditions set out in the Public Offering of Securities Act.

Placement of Orders via Proxy

Except for in person, the Order may also be placed through a proxy who shall be identified by an identity document if natural person or by a certificate of good standing, registry act or other similar document if legal entity (and depending on whether a local or a foreign legal entity), and shall also submit an explicit power of attorney for subscription for New Shares, certified by a notary public.

In compliance with the applicable law and their general terms and practice, the Lead Manager and the investment intermediaries, with which the Orders are filed, will be authorised to refuse to accept an Order, if they are not satisfied by the type, form, validity or other circumstances related to the documents submitted.

- The investors who own Rights at accounts opened with the Lead Manager and the Co-Manager can file Subscription Orders of New Shares at the addresses of the respective branch offices of UniCredit Bulbank, which will be published on the website of the Lead Manager after the promulgation of the public offering in the *State Gazette*.

Subscription Orders are filed with UniCredit Bulbank each business day from 9:00 to 17:00, respectively during the business hours of the other investment intermediaries.

Contents of the Subscription Order

The Subscription Orders shall have at least the following contents:

- full name, unique client number of the investor and of his/her attorney, and if such numbers are not specified: full name, Personal Identity Number, seat and the address, respectively business name, identification number (BUSLTAT), registered office and business address of the investor and its representative or attorney, and if the investor is a foreign person – similar identification data, including personal/security number of the individual and registration number or other similar number of the legal entity;
- issuer (Sparky Eltos) and ISIN code of the Shares;
- number of the Rights that are exercised;
- number of the subscribed New Shares subject to the Order;
- date, hour and place of the Order placement;
- signature of the person placing the Order or of its legal representative or proxy;
- number of a bank account for recovery of the paid sum in the event of unsuccessful offering.

The investment intermediaries that accept Orders are entitled to prepare and request the completion of particular Order forms with the above contents and with additional specified by them contents.

Documents Enclosed to the Subscription Order

If the order is placed by a legal entities, the following should be enclosed: an original copy or a copy certified by a notary public of a certificate of good standing, issued no earlier than 1 month before the date of submission of the written order, and for foreign legal entities – a copy of the registration act (or other identical certificate) in the respective foreign language, containing the full name of the legal entity; issue date and issuing country; address of the legal entity; names of persons authorized to represent it.

Bulgarian legal entities should enclose a copy of their BULSTAT registration, certified by their legal representative

Legal entities shall file their orders via their legal representative or a proxy, where the latter should produce a personal identification document, a copy of which is attached to the order. Physical persons or their representatives should produce a personal identification document (foreign physical persons - a passport for entering Bulgaria), and attach to the order a copy of the document, certified by themselves. The investment intermediaries accepting Orders from their clients are entitled to request additional information, declarations or other documentation from the persons who file the Orders when it is provided for in the law and/or in the internal rules of the investment intermediaries.

Terms and Conditions for Payment of the Issue Price

General

The payment of the New Shares shall be made in BGN.

Pursuant to the requirements of the Measures against Money Laundering Act the Lead Manager, as well as the investment intermediaries, the banks and the other financial institutions, receiving and realising payment transfers shall or in certain circumstances are entitled to identify the investors and collect, record or disclose to the relevant state authorities information concerning the transfers made and the monies' origin in compliance with the requirements of law and their internal applicable rules.

In case of subscription of Shares through an investment intermediary the transfer of the money may be made by the respective investment intermediary for the account of the investor who is its client.

Terms of Payment

The deadline for payment of the Issuance Value of the subscribed New Shares will be the end of the final day of the subscription procedure (the deadline for subscription of shares). The payment shall be deemed to be made upon crediting the respective sum to the special bank account of Sparky Eltos opened with the Lead Manager.

Form of Payment

The payment shall be made in cash or via a bank transfer, including electronic. In all cases, the document (including the electronic document) certifying the payment (payment order, note or similar) shall contain at least name/business name of the investor, its EGN/BULSTAT (for Bulgaria-based persons), the total number of the subscribed New Shares, the total amount of the payment due and made.

Special Bank Account

The Issuance Value of the subscribed Shares shall be credited to a special capital bank account opened in the name of Sparky Eltos with the Lead Manager. The details of the bank account shall be announced in the Offering Announcement that shall be promulgated in the *State Gazette* and published in the *Pari* newspaper and may be received at any time after the release from the Lead Manager. Pursuant to the law the sums credited to this account shall be blocked and cannot be disposed of by the Company before the entry of the Capital Increase at the company register; in case the Offering is unsuccessful they are returned to the investors within the terms and conditions set out here-in-below.

Completion of the Subscription Procedure Prior to Expiration of the Final Term

If all 2,800,000 New Shares are subscribed and paid before the final day of the subscription, Sparky Eltos shall announce its termination; notify the FSC within 3 business days and undertake all necessary measures for entry of the Capital Increase and the New Shares at the company register, at the Central Depository, FSC and BSE.

The capital increase through Rights issue excludes the possibility for subscription of more than the offered number of Shares.

Public Announcement of the Results from the Offering

Under the terms and conditions of Art. 112b, para. 12 POSA Sparky Eltos shall notify FSC within a term of 3 business days after completion of the subscription procedure about the implementation of the latter and the results thereof, including any difficulties, disputes and similar in relation to the trading in the Rights and the subscription of the Shares.

Within a 7-day term after the completion of the Offering Sparky Eltos shall submit to the FSC and BSE a notification on the results from the Offering, containing information on date of completion; total number of the subscribed Shares; funds accumulated against the subscribed Shares; amount of the commission fees and other expenses for the Offering, including paid taxes. The Company shall enclose to the notification the documents as required by the law. Within the same term an announcement of said circumstances shall be released in the *Pari* newspaper and on the web-sites of Sparky Eltos and the Lead Manager.

Unsuccessful Completion of the Subscription

If until the final deadline of the Subscription fewer than 2,280,000 New Shares are subscribed for, the Capital Increase will be considered unsuccessful. In such event Sparky Eltos shall publish notification to this end in two national daily newspapers – *Pari* and *Dnevnik*, and shall notify FSC under the terms of the preceding item. Any amounts paid by investors, including interest paid by the bank, if any, shall be recovered by the Lead Manger into the bank accounts specified in the Orders and or in cash at the address of the Lead Manager, in accordance with a list provided by the latter to the persons who have subscribed an paid for shares, within 30 days of the notice to FSC. In the event that the Capital Increase is not entered into the company register, Sparky Eltos shall immediately notify to this end FSC, BSE, and the Central Depository, shall publish a notice to this end in two national daily newspapers – *Pari* and *Dnevnik* within 3 after entry into force of the refusal of entry into the company registers, and shall recover the received sums within 30 days after the announcement within the terms and conditions set out in the previous sentence.

Selling Restrictions in Certain Jurisdictions

The distribution of this document and the offer of Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction, other than Bulgaria, which would permit a public offering of the Shares, or possession or distribution of this document or any other informational material, in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other informational material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country for making such offer to subscribe for or buy any of the Shares by the respective persons..

Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of Shares, including those in paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Bulgaria

No Shares may be offered to the public in Bulgaria within the meaning of the Bulgarian Public Offering of Securities Act of 1999 ("**POSA**") prior to the approval of a prospectus for a public offering of those shares by the Bulgarian Financial Supervision Commission. After such approval, Shares may be traded within the meaning of the POSA as well as the Markets in Financial Instruments Act of 2007 (entering into force on 1 November 2007). The Lead Manager has declared and agreed that it shall neither perform public offering of the Shares in Bulgaria nor participate in trading in the Shares except for in full compliance with the Bulgarian law.

European Economic Area

Offering of Shares shall not be made to investors in any member state of the European Economic Area that has implemented the Prospectus Directive ("**Member State**") except for in cases when the Offering of the Shares falls within the scope of the following exemptions under the Prospectus Directive and these exemptions are present in the Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose main corporate purpose is to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than EUR 43,000,000 and (iii) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated report;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Shares shall result in a requirement for the publication by Sparky Eltos or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of any Shares to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The United States

The Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States of America and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The Shares are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of this offering, an offer or sale of Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act.

SETTLEMENT AND DELIVERY

Issuance of New Shares and admission to trading on the Bulgarian Stock Exchange

If the Offering is successful, UniCreditBulbank will provide Sparky Eltos with a list, indicating the number of New Shares subscribed for and paid by each person; that list will be submitted by Sparky Eltos to the company register and the Central Depository. Upon entry of the Capital Increase and the New Shares into the company register, on or about 30 November 2007 the Central Depository will register the New Shares and will open new accounts or will credit the existing Shares accounts of the investors with the New Shares, subscribed for and paid by them. The New Shares will be credited in investors' accounts with the investment intermediary, through which the Rights were exercised.

Upon demand of investors via an investment intermediary they will receive certifying documents (depository receipts) for the New Shares owned by them. The Central Depository will issue depository receipts, which will deliver to investors via the investment intermediary according to the rules of the Central Depository and the internal rules of the investment intermediary.

Immediately following the entry of the Capital Increase into the Company Register, the Issuer will apply for registration of the New Shares into the FSC's register; then the Issuer and/or the Lead Manager will apply with the BSE for admission of the New Shares to trading. Dealing with the New Shares may begin on the date determined by the board of directors of BSE, after the registration of the new share issue. Trading with the New Shares is expected to commence on or about 17 December 2007.

As of the date of this Prospectus, the Issuer has not negotiated with investment intermediaries to act as liquidity providers for the Shares by maintaining "buy" and "sell" quotes.

Subsequent trading with the New Shares will be accomplished in accordance with the rules and operating procedures of the BSE and the Central Depository as described below in the section *Secondary Trading of the Shares*.

Secondary Trading of the Shares

The transactions with shares, issued by a public company, registered in Bulgaria, are provided for in details in the Public Offering of Securities Act of 1999 and its secondary legislation, in the Rules of the BSE and in the Rules of the Central Depository. As of 1 November 2007 POSA shall be amended with the entry into effect of the Market of Financial Instruments Act of 2007, implementing the requirements of Directive 2004/39/EEC on the markets of financial instruments, in particular the provision for transactions with shares of public companies to be executed only on a regulated securities market is revoked.

Sale and Settlement

Transactions with Shares on the secondary market shall be concluded and/or registered via investment intermediary and are settled through the Central Depository. In case of transactions, concluded on the BSE, the share prices are quoted in BGN, and settlement takes place on a T+2 basis. The transfer of the Shares shall be deem executed as of the moment of registration of the transaction in the Central Depository.

Investment Intermediaries

The investors may only engage in secondary trading of securities listed on the BSE through a licensed investment intermediary. The role of the intermediary is to receive a buy or sell order from the investor, execute it on the BSE (if possible) and to register the transaction with the Central Depository, which carries out the settlement. A transfer of securities resulting from a donation or inheritance is registered with the BSE and settled through the Central Depository with the assistance of an investment intermediary acting as a registration agent. Investment intermediaries are required to provide their clients with information about the types of orders that may be placed on the BSE, the details of any active orders or executed transactions made on behalf of that client, and the expenses, fees and commissions payable to that intermediary, to the BSE or to the Central Depository (if applicable).

The Clearing System

The Central Depository was established as a special joint-stock company in August 1997 under specific provisions of the Bulgarian securities legislation. BNB and the Bulgarian Ministry of Finance own an aggregate of 41.9% of the share capital of the Central Depository. The remaining percentage of the Central Depository's share capital is spread between the major Bulgarian commercial banks and those investment intermediaries that play an active role in the conduct of the BSE. The operations of the Central Depository are supervised and regulated by the Financial Supervision Commission, BNB and the Bulgarian Ministry of Finance. Settlement of securities through the Central Depository can only be effected through a member of the Central Depository. Only investment intermediaries, financial institutions and certain other market participants may become members of the Central Depository.

Payment of Dividends

When the Central Depository receives cash to be distributed as a dividend in relation to a security, the Central Depository will credit the cash accounts of the members who act for the persons registered in the Central Depository's book-entry records as the shareholders of that security at the relevant date. These members are usually investment intermediaries, who upon receipt distribute the dividend amounts to the relevant shareholders in accordance with their shareholdings. The Central Depository will distribute dividends only in accordance with its rules and procedures and any applicable legislation or regulations.

GENERAL INFORMATION

1. Sparky Eltos

The Company was founded with a decision of the Council of Ministers in 1989 as Eltos, a state-owned firm, and entered into the Company Register of Lovech District Court pursuant to the court decision of 3 May 1989 on company file No. 37/1989, lot No. 3, volume 2, page 9 in accordance with Decree No. 56 on Economic Activity. Pursuant to §8 of the Transitional and Final Provisions of the Company Act, the registration of firms made under decree No. 56 remains in force and, by right, the registered joint stock firms become joint stock companies, respectively the name of the Company became Eltos EAD. In 1997, with a decision of Lovech District Court, pursuant to Art. 6 in connection with Art. 174, para. 2 and Art. 231, para. 3, a change in the name of the Company from Eltos EAD to Sparky Eltos AD was entered. The Company is registered with the unified register BULSTAT with the following identification number: 820147084. Sparky Eltos has been duly established and exists pursuant to the Bulgarian laws. The existence of Sparky Eltos is not limited in duration or in view of another condition for winding up.

1.2. In May 1998, Sparky Eltos acquired the status of a public company in accordance with the terms and procedure under the Securities, Stock Exchanges and Investment Companies Act (repealed) as a result of offering its Shares in the process of mass privatization. Then the Shares in the Company were listed on the Bulgarian Stock Exchange. Sparky Eltos is registered as an issuer of publicly offered shares with the Register of Public Companies and Other Issuers of Securities kept by the Financial Supervision Commission, lot No. 05-0151.

1.3. The registered office and business address of Sparky Eltos is: Lovech, 9 Kubrat Str., Bulgaria, telephone: +359 68 2 35 50, fax: +359 68 600 580, e-mail: sparky_eltos@sparkygroup.com, website: www.sparkygroup.com.

1.4 Sparky Eltos carries out activities in accordance with the Company Act of 1991 and Public Offering of Securities Act of 1999. Issues in relation to the public offering of shares in Sparky Eltos that are important to the investors are provided for in the following pieces of legislation: Markets in Financial Instruments Act (in force as of 1 November 2007); Regulation 809/2004/EC of the European Commission regarding the application of Directive 2003/71/EC on prospectuses; Corporate Income Tax Act; Tax on Income of Natural Persons Act; Currency Act. The provisions of Section I of Chapter Eleven of the POSA and the Ordinance on Disclosure of Holdings in Public and Investment Companies set out the requirements for disclosure of material holdings in the Company. Provisions for the transactions of Sparky Eltos with its own shares can be found in Art. 111, para. 2 and 5 of the POSA and the Company Act. The mandatory tender offerings are provided for in Art. 148g, Art. 150 – 157e of the POSA, Ordinance on the Requirements for the Content of the Rationale of the Price of Stocks in Public Companies, Including for the Application of Valuation Methods in the Cases of Transformation, Common Enterprise Agreement and Tender Offering, as well as in Ordinance No. 13/22 December 2003 on Tender Offerings for Buying and Exchange of Shares. The conditions for deletion of the Company from the Register of Public Companies and Other Issuers of Securities under Art. 30, para. 1, item 3 of the Financial Supervision Commission Act are laid down in Art. 119 of the POSA and Ordinance No. 22 of the FSC on Establishing Terms and Procedure for Entering and Deletion of Public Companies, Other Issuers of Securities and Issues of Securities in the Register of the Financial Supervision Commission.

2. Real estate

The more significant real estate of Sparky Eltos includes:

Location	Purpose	Area (built-up area)
Town of Lovech, East Industrial Area, site A	Land and buildings, including an administrative building, production sections, service building, canteen, exhibition room, etc.	76,970 m^2 (34,862 m^2)
Town of Lovech, East Industrial Area, site B ….	Land and buildings, including a production section, two dormitories, canteen, shop, steam station, maintenance and mechanic workshop, support sections, etc.	40,840 m^2 (20,828 m^2)
Village of Lesidren …………………………...	Land and buildings, including three productions sections, support section, service building, shop and central steam service	20,000 m^2 (7,241 m^2)
Village of Alexandrovo …………………………	Land and buildings, including two production sections, canteen, administrative building and spherical storehouses	28,000 m^2 (5,542 m^2)
Locality of Stratesh……………………… ……..	Land and three buildings	11,150 m^2 (263.8 m^2)
Village of Chiflik	Land	10,000 m^2

Source: Sparky Eltos

3. Share capital

3.1. The share capital of Sparky Eltos as of the date of this document is:

Number of shares	Class	Amount (BGN)	Face value per share
14,000,000	Ordinary dematerialized (1)	14,000,000	BGN 1 (1)

(1) As of 31 December 2006 53,723 Shares acquired by the Majority Shareholder during the Company's cash privatization were still in materialized form. In June 2007 all 14,000,000 Shares in Sparky Eltos were registered at the Central Depository as dematerialized.

Since 27 September 2004 until now, the following changes in the registered share capital of Sparky Eltos have been made:

3.1.1. The increase in capital of Sparky Eltos from BGN 2,000,000 to BGN 14,000,000 through the issuance of 12,000,000 new registered dematerialized voting shares was entered with decision No. 810 of Lovech District Court of 6 July 2007. The increase in share capital was made in accordance with the decision of the General Meeting of 15 June 2007 to increase the capital of the Company pursuant to Art. 197, para. 1 and Art. 246, para. 4 of the Company Act with the transformation of the profit of the Company for 2006 and the reserves of the Company into equity via the issuance of 12,000,000 new registered dematerialized voting shares each having a par value of BGN 1. The new shares were distributed among the shareholders in proportion to their participation in the capital until the increase.

3.2. In addition to the indicated in item 3.1. above:

3.2.1. As of 27 September 2004 until now, the share capital of Sparky Eltos has not been increased with cash or non-cash contributions;

3.2.2. As of 27 September 2004 until now, Sparky Eltos has not provided any commissions, discounts or fees as special conditions in relation to the subscription for and payment of the share capital of Sparky Eltos;

3.2.3. The shares in the capital of Sparky Eltos are not subject to options and there are no provisional or unprovisional agreements which provide for Shares in the capital to be the subject of options.

3.3. All issued shares in Sparky Eltos are ordinary and its Articles of Association do not provide for the issuance of preferred shares. Outside to the indicated in this document, the rights under Shares are not significantly restricted by the rights conferred by other securities issued by Sparky Eltos or agreements it has entered into. Sparky Eltos does not envisage the issuance of instruments or entering into agreements which will limit the rights under the Shares.

3.4. The Shares in Sparky Eltos are dematerialized and, in view of the exercise of the rights under the Shares, the issuance of depository receipts to shareholders by the Central Depository is not necessary.

4. Capital increase and approval of the Prospectus

This document was approved by the Management Board of Sparky Eltos with a decision of 27 September 2007. All agreements, approvals, authorizations and other orders required by the Articles of Association of Sparky Eltos or the existing Bulgarian legislation concerning the Offering, subscription for and sale of New Shares have been granted or obtained.

At its session on 15 June 2007, with an amendment to the Articles of Association, the General Meeting of Shareholders in Sparky Eltos authorized the Management Board to take decisions concerning capital increases of the Company up to the amount of BGN 3 million under Art. 196 of the Company Act without specific due delegation to this effect by the General Meeting of Shareholders for each specific case but entirely on the basis of the power granted to it up to 2 years from the entry of the amendment to the Articles of Association. In its decision on the capital increase, the Management Board determines the amount and purpose of every increase; number and type of new shares, the rights and privileges under them; terms and conditions for transfer of the rights within the meaning of §1, item 3 of the POSA issued in exchange for existing shares; terms and conditions for subscription for new shares; amount of issuing value and term and conditions for payment of it; investment intermediary who will be entrusted with the subscription.

In performance of this decision of the shareholders and the power entrusted to it in accordance with the Articles of Association, with its decisions of 29 June 2007 and 9 August 2007, the Management Board of the Company took a decision to increase the capital of Sparky Eltos via the issuance of up to 2,800,000 New Shares which are the subject of the Offering under this Prospectus pursuant to the requirements of the latter. The Management Board sets out the issuing value of the New Shares and chooses UniCredit Bulbank to be the Lead Manager of the Offering. The Management Board sets the threshold level at 2,280,000 shares whose issuance will be considered a successful Capital Increase for the Company and which are also the minimum number of New Shares offered for subscription.

5. Judicial disputes

Sparky Eltos is not a party and has not been a party to any judicial, arbitration or administrative proceedings (including proceedings of the above nature that are pending or which may be initiated) in the last 12 months preceding the date of this document which may have or have had a significant influence on the financial position or profitability of Sparky Eltos.

6. Members of the Supervisory Board and Management Board of Sparky Eltos

6.1. Participation in the share capital

The following Members of the Supervisory Board and Management Board hold shares in the capital of Sparky Eltos:

Name:	**Number of shares held:**	**% of capital / votes in the GMS:**
Stanislav Petkov	72,345	0.5168
Petar Baburkov	29,176	0.2084

Stoyan Spasov	168	0.0012
Nikolai Kalbov	1,015	0.0073
Petar Atanasov	1,505	0.0108
Ivan Alexiev	70	0.0005
Dimitar Bodzhakov	1,351	0.0097
Gina Kalcheva	3,129	0.0224
Anatolii Ivanov	1,330	0.0095
Miroslav Kalonkin	1,071	0.0077

Source: Sparky Eltos

Some of the Members of the Management Board and Supervisory Board of Sparky Eltos and other employees intend to acquire Shares Offered during the Offering and after that. In addition, the Members of the Management Board and Supervisory Board may decide, at a future time, to approve options on shares or a share purchase program with a view to providing additional incentives to the Members of the Supervisory Board and Management Board of Sparky Eltos, higher management and other employees.

6.2. After the Offering, some Members of the Supervisory Board and Management Board of Sparky Eltos will continue to participate in the share capital of Sparky Eltos. It is possible that employees with managerial functions will have holdings in the share capital of Sparky Eltos after the offering.

6.3. There are no effective agreements and it is not expected that such will be entered into between a Member of the Supervisory Board, Management Board or employees with managerial functions in the Company or its subsidiary providing for payment of compensation in the event of termination of the contractual relations.

6.4.There are no kinship ties between members of the Management Board and Supervisory Board of Sparky Eltos..

6.5. Holdings in the management of other companies

Outside their activities as Members of the management and supervisory bodies of Sparky Eltos, the Members of the Supervisory Board and Management Board of the Company have had holdings and have performed managerial and control functions for the past 5 years in the following companies:

Name	**Current positions / holdings**	**Former positions / holdings**
Stanislav Petkov	Chairman of the Supervisory Board and shareholder in Sparky Group AD, Sofia; partner to and manager of Sparky GmbH, Germany; Member of the Supervisory Board of Sparky AD, Ruse.	-
Petar Baburkov	Chairman of the Supervisory Board and shareholder in Sparky Group AD, Sofia; partner to and manager of SPARKY GmbH, Germany; Member of the Supervisory Board of Sparky AD, Ruse.	-
Stoyan Spasov	-	Chairperson of the Management Board of Sparky AD, Ruse.
Nikolai Kalbov	Member of the Management Board of Rotary Club Lovech Association; Member of the Management Board of Stratesh Free Mason Association.	Executive director of Sparky AD, Ruse; member of the Supervisory Board of Sparky AD, Ruse; Member of the Management Board of Sparky Group AD,

Name	Current positions / holdings	Former positions / holdings
		Sofia.
Petar Atanasov	Member of the Supervisory Board of Elresurs AD, Sofia	Manager of Fred Sparky OOD, Sofia; manager of Sparky Trading; manager of the Management Board of Sparky Group AD, Sofia.
Ivan Alexiev	-	Member of the Management Board of Sparky AD, Ruse.

6.6. Sentences, participation in companies declared insolvent, coercive measures

For the past five years preceding the date of this document, none of the Members of the Supervisory Board and Management Board or an employee in a managerial position in Sparky Eltos:

- Has been convicted of crimes;
- Has been Member of a management or control body of a company that has been wound up because it was declared insolvent if there were any unsatisfied creditors; or
- Has been convicted with an effective sentence and/or been the subject of coercive administrative measures or administrative sanctions (including of the indicated management bodies) related to their activities as a Member of the management body in carrying out the activities of the company and has been dismissed by the court as a Director of the company.

6.7. Conflict of interest

There are no current and potential conflicts of interest between the obligations to Sparky Eltos of the Members of the Supervisory Board, Management Board and higher management, on the one hand, and their personal interests and other obligations, on the other hand.

Information about the remuneration of the Lead Manager and the dependency of the remuneration on the success of the public offering has been disclosed in *Subscription and Sale – The Offering*. The remuneration of the other consultants of the Company concerning the Offering does not depend on its success.

6.8. Remunerations and social insurance paid

The Directors of Sparky Eltos do no receive remuneration in their capacity as Directors.

During the fiscal year that ended on 31 December 2006, the total sum of the remuneration paid by Sparky Eltos to Directors in connection with their labor relations with the Company (not for the functions they perform as Directors) amounted to BGN 113,688.00 thousand. The amount of social insurance paid, including mandatory pension insurance for the entire 2006 was BGN 20,196.00 thousand. The table below details the information under the preceding sentence on an individual basis, separately for each Director.

Name:	Remuneration:	Social Insurance:
Nikolai Kalbov..	22,000	4,112
Gina Kalcheva...	3,129	0,0224
Todor Todorov (1)...	3,129	0,0224
Alexandar Vladimirov (1)...	3,129	0,0224
Anatolii Ivanov	1,330	0,0095
Miroslav Kalonkin	1,071	0,0077

(1) Former member of the Management Board.

(2) In 2006 the members of the Management Board Petar Alexandrov, Evgeni Mihailov and Stoyan Tsokov did not have labor relations with the Company and did not receive remuneration from Sparky Eltos.

Source: Sparky Eltos

7. Subsidiaries and associated companies

As of the date of this document, Sparky Eltos does not have directly or indirectly holdings in other companies.

8. Material changes

With the exception of the indicated in this document, there have been no material changes in the financial or economic position and prospects of Sparky Eltos after 31 December 2006, the end of the last fiscal year.

9. Material agreements

There are no agreements (outside the agreements entered into in the ordinary course of business of the Company) which have been concluded by Sparky Eltos during the two years immediately preceding the date of this document and which have had or could have material importance to Sparky Eltos, or such concluded by Sparky Eltos and containing provisions pursuant to which Sparky Eltos has an obligation or right which has or could be of material importance to the Company as of the date of this document.

10. Auditor

The auditor of Sparky Eltos is the specialized audit company Grant Thornton Bulgaria OOD, registered office and business address: Sofia 1000, 54 William Gladstone Str., floor 3, registered with the Sofia City Court under company file No. 9558/1995, through Marii Apostolov, registered auditor, registration No. 0488; the auditor has audited the financial statements of Sparky Eltos for the three years ending on 31 December 2006, 31 December 2005 and 31 December 2004.

11. Extraordinary transactions or transactions with related persons of significant value

Sparky Eltos enters into transactions with related persons in the ordinary course of its business. These transactions are concluded at market prices and are not of material importance to the activities and financial position of the Company, see *Related Party Transactions*. There are no proposals for conclusion of transactions of Sparky Eltos with related persons which are of material importance or are extraordinary in conditions and type.

12. General information

12.1. In 1998 the shares in Sparky were admitted to trading on the unofficial market of the Bulgarian Stock Exchange. At a meeting of the Board of Directors of BSE – Sofia AD held on 18 August 2007, a decision was made to move the issue of shares in Sparky Eltos AD – Lovech from *Unofficial Market of Shares, Segment A* to *Official Market, Shares Market Segment B* of the BSE and the date of listing on the official market was 17 August. The settlement of Shares is handled via the Central Depository. The ISIN code is BG11ELLOAT15.

12.2. The Lead Manager is not an underwriter to the Offering but has taken on certain obligations, including such related to consulting, marketing, organization of the subscription and cooperation with foreign investors in the event of purchase of Rights and subscription for Offered Shares.

12.3. Sparky Eltos will publish invitations to the General Meeting of Shareholders in the *Pari* newspaper.

12.4. All costs related to the Offering and Capital Increase are for the expense of the Lead Manager.

12.5. The Issuer does not have information about people who intend to purchase more than 5 percent of the Shares during the Offering. Sparky Eltos does not have information about the intentions of other Existing Shareholders concerning the acquisition of Shares in the offering or immediately after it.

12.6. No part of the Shares that are subject of the Offering are reserved to be purchased by employees of Sparky Eltos or any other class of investors regardless of whether they are related to Sparky Eltos or not.

12.7. No fees or costs will be paid by or for the expense of the persons subscribing for and purchasing Shares in the Offering outside the ordinary bank fees for wire transfers, fees agreed on and commission for the expense of investors pursuant to their agreements with the investment intermediaries as well as the respective currency exchange fees if an investor wants to make a payment in a foreign currency and may be obligated to pay the respective exchange fees.

12.8. Information about the remuneration of the Lead Manager and the dependency of the remuneration on the success of the public offering is disclosed in *Sale of Shares – Mandate Agreement*. The remuneration of the other consultants of Sparky Eltos does not depend on its success. The Lead Manager does not own shares in Sparky Eltos and does not have a significant direct or indirect economic interest in the Group. The legal advisor to the Offering does not hold shares in Sparky Eltos and does not have a significant direct or indirect interest in the Group.

12.9. Investors may obtain information about the prices and volume of the exchange transactions in Shares in Sparky Eltos, about the prices and volume of demand and supply of Shares and other investment information from the licensed investment intermediaries. Such information may also be obtained from the BSE bulletin on the BSE website: www.bse-sofia.bg, from the financial press and other similar sources.

12.10. There have been no mandatory or voluntary tender offers for the acquisition of its Shares under the Public Offering of Securities Act of 1999 since Sparky Eltos became a public company.

13. Documents referred to in the Prospectus

13.1 The Prospectus refers to the below documents of Sparky Eltos submitted to the Financial Supervision Commission which are considered, pursuant to the law, part of the current document and are accessible at Sparky Eltos at the address given on page 2 of the Prospectus:

13.1.1 Management reports of Sparky Eltos for 2006, 2005 and 2004;

13.1.2 Declarations under Art. 81, para. 5 of the Public Offering of Securities Act concerning the information in the Prospectus from the Members of the Sueprvisory Board of Sparky Eltos, compilers of the financial statements of Sparky Eltos and the registered auditor.

14. Documents provided for review

Copies of the following documents will be provided for review in the course of the normal opening hours during the week (excluding Saturday, Sunday and official holidays) in the Sparky Eltos office at 9 Koubrat Str., Lovech, Bulgaria, as well as on the website of the Company: www.sparkygroup.com As of the date of publication of this Prospectus while it is valid:

14.1. Articles of Association of Sparky Eltos;

14.2. This document, including the financial statements and auditor reports appended to it and the documents to which the Prospectus refers in accordance with item 13 above;

14.3 Follow-up financial statements of the Company with the respective auditor reports, if any, after they have been drawn up and published.

DEFINITIONS

The definitions below are used throughout this document unless the context requires otherwise.

"Shares"	The shares in Sparky Eltos issued and registered with the Central Depository as of the date of this Prospectus (ordinary dematerialized shares with a par value of BGN 1 per share) and the New Shares from the Capital Increase of the Company
"UniCredit Bulbank" ….............................	UniCredit Bulbank AD, Sofia, Lead Manager of the Offering
"GDP"	Gross Domestic Product
"BSE", **"Bulgarian Stock Exchange"** or **"the Exchange"**	Bulgarian Stock Exchange – Sofia AD
"Lead Manager" …….................................	UniCredit Bulbank AD
"Group" …………………………………	The companies controlled by Mr. Stanislav Petkov and Mr. Petar Baburkov, including Sparky Eltos AD, Lovech; Sparky AD, Ruse; Sparky Group AD, Sofia; and Sparky Trading EOOD, Sofia
"Directors" …...	Members of the Supervisory Board and Management Board of the Company
"The Company"	Sparky Eltos AD
"Issue price" or **"Issue value"**	BGN 16 per new share in Sparky Eltos
"EU"	European Union
"Financial Supervision Commission" or **"FSC"** …...	Financial Supervision Commission in Bulgaria
"Lockup Agreement" …………………….	An agreement entered into by Sparky Eltos and the Majority Shareholder Sparky Group, which limits the issue, sale and other forms of disposal with Shares by the Company and the Majority Shareholder for a specified period following the Offering.
"Majority Shareholder" …….....................	Sparky Group AD, Sofia (previously named Sparky Bulgaria AD) where the Members of the Supervisory Board Mr. Stanislav Petkov and Mr. Petar Baburkov have holdings of 50% of the capital each
"IMF" …..	International Monetary Fund
"IAS" …..	International Accounting Standards
"IFRS" …...	International Financial Reporting Standards
"Supervisory Board"	Supervisory Board of the Company

“New Shares” …..	2,800,000 Shares in the Capital Increase which are subject of the Offering
“General Meeting”	General Meeting of Shareholders in Sparky Eltos
“Rights”	Securities granting the right to subscribe for a certain number of shares in the process of issuance in relation to a decision made to increase the capital of a public company
"Offering" …..	Public offering in Bulgaria of 2,800,000 New Shares in the Capital Increase of Sparky Eltos and the offering of rights for trading on the BSE. The New Shares and their respective Rights will be offered for sale outside the USA in keeping with Regulation S.
“Offered Shares” ……...............................	New Shares in the Capital Increase
"Admit to trading" ………........................	Admit the New Shares to trading on the unofficial market of the Bulgarian Stock Exchange
“Regulation S”	Regulation S on the application of the US Securities Act
“Sparky Eltos” ……....................................	Sparky Eltos AD, Lovech
“Sparky Group”	Majority Shareholder in the Company Sparky Group AD, Sofia
“Capital Increase” ……………...................	Capital Increase in Sparky Eltos through a public offering for subscription of 2,800,000 New Shares voted for with the decisions of the Management Board of 29 June 2007 and 9 August 2007
“Management Board”	Management Board of the Company
“Articles of Association”	Articles of Association of the Company, latest amendment with a decision of the General Meeting of 15 June 2007
"Central Depository"	Central Depository AD, Sofia, a company which, pursuant to the law, keeps the national register of intangible shares in Bulgaria and provides, in addition to other things, services related to clearing and settlement of transactions in intangible securities

Throughout this Prospectus, the words signifying a gender include all genders unless the context requires otherwise.

Persons responsible for the information in the drawing up of the Prospectus:

Nikolay Kalbov,

Chief Executive Director and Chairperson of the Management Board of Sparky Eltos

Petar Atanasov,

Executive Director of Sparky Eltos

Gina Kalcheva,

Member of the Management Board and Chief Accountant of Sparky Eltos

The undersigned, in their capacity of representative of SPARKY ELTOS AD, declares with their signature that the Prospectus complies with the requirements of the law.

Nikolai Kalbov,

Chief Executive Director and Chair of the Management Board of Sparky Eltos

Lead Manager

UniCredit Bulbank

________________________	_________________________________
Levon Hampartzoumian	Andrea Casini
Chief Executive Officer and	Chief Busienss Officer
Chair of the Management Board	Member of the Management Board

INDEX TO THE FINANCIAL STATEMENTS

Numbers are given in the following manner in the financial statements of Sparky Eltos: the number "thousand" is "1,000," the number "one hundred five tenths" is "100.50," the number "one million" is "1,000,000" or "1,000,000.00" and all other numbers are expressed and written in the same manner.

CENTRAL OFFICE OF SPARKY ELTOS

Sparky Eltos AD
9 Koubrat Str.
Lovech
Bulgaria

LEAD MANAGER

UniCredit Bulbank AD
7 Sveta Nedelia Sq.
Sofia 1000
Bulgaria

LEGAL ADVISOR TO SPARKY ELTOS

Dimitrov, Chompalov & Todorova OOD
22 – 24 Major Purvan Toshev Str.
Sofia 1408
Bulgaria

AUDITORS OF SPARKY ELTOS

Grant Thornton Bulgaria OOD
54 William Gladstone Str., floor 3
Sofia 1000
Bulgaria

SPARKY ELTOS AD

Intermediate Financial Statement as of 30.06.2007 according to IFRS

T A B L E   O F   C O N T E N T S

SPARKY ELTOS AD

Balance Sheet At 30 June 2007

	TBGN	TBGN
Assets	**30.06.2007**	**31.12.2006**
Long-term assets		
Property, plant and equipment	55,225	39,567
Intangible assets	293	294
Non-current financial assets	17	17
Deferred tax assets	2	2
	55,537	**39,880**
Current assets		
Inventories	26,559	21,210
Related party receivables	2,361	19
Receivables and advance payments	768	6,318
Cash	1,435	219
Current financial assets	3	3
	31,126	**27,769**
Total assets	**86,663**	**67,649**
Equity		
Share capital	14,000	2,000
Revaluation reserve	32,120	15,626
Other reserves	512	11,621
Financial result	3,059	891
	49,691	**30,138**
Non-current liabilities		
Long-term loans	20,767	22,066
Non-current part of financial lease	3,739	3,800
	24,506	**25,866**
Current liabilities		
Liabilities and advance payments	6,825	6,238
Liabilities to related parties	106	97
Short-term loans	4,318	4,254
Current part of financial lease liabilities	1,217	1,056
	12,466	**11,645**
Total equity and liabilities	**86,663**	**67,649**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Date: 15.08.2007

SPARKY ELTOS AD

Income Statement
As for the period 01.01.2007 – 30.06.2007

	TBGN 30.06.2007	TBGN 30.06.2006
Sales	**23,567**	**21,083**
Other income	438	474
Cost of materials	(16,320)	(14,475)
External services	(837)	(881)
Depreciation expences	(2,598)	(2,299)
Wages	(3,795)	(3,416)
Other expences	(610)	(436)
Adjustments	4,142	918
Operating profit	**3,987**	**968**
Net interest expenses	(757)	(810)
Other financial income/(expences)	(171)	(86)
Profit before tax	**3,059**	**72**
Taxation	-	-
Profit after taxes	**3,059**	**72**

Prepared by: G. Kalcheva

Managing Director: N. Kalbov

Date: 15.08.2007

SPARKY ELTOS AD

Cash Flow Statement
For the period 01.01.2007 – 30.06.2007

	TBGN	TBGN
	30.06.2007	**30.06.2006**
Cash flows from operations		
Profit before interest and tax	3,816	882
Depreciation and amortization	2,598	2,298
Profit) on disposal of fixed assets	-	-
Gain from operations with short-term financial assets	(57)	(82)
(Increase) in inventories	(5,349)	(115)
(Increase)/ decrease in receivables	3,204	(5,663)
Increase in payables	796	6,250
Net cash inflow from operating activity before interest and tax	**5,008**	**3,570**
Interest paid	(633)	(737)
Tax paid	(156)	(188)
	4,219	**2,645**
Cash flows from investing activities		
Capital expenditure	(1,174)	(1,256)
Purchase of current investment	(107)	1
Proceeds from sale of non-current assets	-	-
	(1,281)	**(1,255)**
Cash flows from financing activities		
Loans received	112	58
Loans paid	(1,347)	(944)
Payments under finance leases	(487)	(345)
Other payments	-	(39)
	(1,722)	**(1,270)**
Changes in cash flows during the period	1,216	120
Cash flows at the beginning of period	219	128
Cash flows at the end of the period	**1,435**	**248**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Date: 15.08.2007

SPARKY ELTOS AD

Statement of changes in shareholders' equity
For the period 01.01.2007 – 30.06.2007
TBGN

	Share Capital	**Revaluation Reserves**	**Other Reserves**	**Profit**	**Total**
Balance as of 01.01.2006	**2 000**	**15 627**	**11 176**	**445**	**29 248**
Net profit for the year	-	-	-	929	929
Distribution of profit to reserves	-	-	445	(445)	-
Other movements in reserves	-	(1)	-	(38)	(39)
Balance as of 01.01.2007	**2 000**	**15 626**	**11 621**	**891**	**30 138**
Net profit for the year	-	-	-	3,059	3,059
Distribution of profit to reserves	-	-	891	(891)	-
Revaluation reserve of non-current assets disposed	-	16,494	-	-	16,494
Capital Increase	12,000	-	(12,000)	-	-
Balance as of 30.06.2007	**14,000**	**32,120**	**512**	**3,059**	**49,691**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Date: 15.08.2007

SPARKY ELTOS AD

Financial Statement

2006

TABLE OF CONTENTS

SPARKY ELTOS AD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 2006

The Executive Director of Sparky Eltos present the report and the financial statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2006. These financial statements have been audited by Grant Thornton Ltd.

BUSINESS DESCRIPTION

SPARKY ELTOS AD is a joint stock company incorporated in Bulgaria. The company's principal activity is manufacturing of electrical handheld power tools. Currently, the company employs 1,341 people. The head office and the manifacture are located in Lovech, Bulgaria.

OBJECTIVES FOR 2007

The Directors have set the following primary objectives for 2007:

- Innovating and increasing the equipment with high class precision and quality of manufacturing;
- Increasing the volume of sales in the European Union and the market share;
- Improving the organization and achieving greater efficiency of production;

OPERATING REVIEW

In 2006 the company increased its sales in comparison to the sales in 2005 while at the same time it managed to sustain the expansion of the product range. The sales on the Bulgarian market showed an increase of more than 7% and with its sales abroad the company maintained its leading position among world manufactures of powertools.

CORPORATE GOVERNANCE ISSUES

Directors

The company has a two-tier managing structure consisting of a Supervisory Board and a Board of Directors.

Members of the Supervisory Board as of 31 December 2006:

Stanislav Petkov

Peter Babourkov

Jordan Peytschev

Members of the Board of Directors as of 31 December 2006:

Nikolay Kalbov

Alexander Vladimirov

Petar Atanassov

Gina Kalcheva

Anatoli Ivanov

Miroslav Kalonkin

Evgeni Mihaylov

Stoyan Tzokov

Todor Todorov

Managing Director

Managing Director of the company as of 31 December 2006 is Nikolay Kalbov

Directors' responsibilities

The Directors are required by Bulgarian law to prepare each financial year financial statements that give a true and fair view of the state of affairs of the company as at the financial year end and of the profits or losses for the year.

The Directors confirm that suitable accounting policies are being used and applied in the preparation of the financial statements and are according to the International Financial Reporting Standards. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' interests

As of 31 December 2006 Nikolay Kalbov owns 145 shares in the capital of SPARKY ELTOS AD.

By order of the Board

Nikolay Kalbov

Managing Director

Lovech, 27 January 2007

SPARKY ELTOS AD

Balance Sheet At 31 December 2006

	Note	TBGN	TBGN
Assets		**2006**	**2005**
Long-term assets			
Property, plant and equipment	2	39 567	38 112
Intangible assets	3	294	112
Non-current financial assets	4	17	12
Deferred tax assets		2	8
		39 880	**38 244**
Current assets			
Inventories	5	21 210	18 516
Related party receivables	6	19	8 573
Receivables and advance payments	7	6 318	2 177
Cash	8	219	128
Current financial assets	4	3	2
		27 769	**29 396**
Total assets		**67 649**	**67 640**
Equity			
Share capital	9	2 000	2 000
Revaluation reserve	10	15 626	15 627
Other reserves		11 621	11 176
Financial result		891	445
		30 138	**29 248**
Non-current liabilities			
Long-term loans	11	22 066	25 681
Non-current part of financial lease	12	3 800	1 764
		25 866	**27 445**
Current liabilities			
Liabilities and advance payments	13	6 238	6 033
Liabilities to related parties	14	97	192
Short-term loans	15	4 254	4 192
Current part of financial lease liabilities	12	1 056	530
		11 645	**10 947**
Total equity and liabilities		**67 649**	**67 640**

SPARKY ELTOS AD

Income Statement
For The Year Ended 31 December 2006

	Note	TBGN 2006	TBGN 2005
Sales	16	**49 019**	**40 393**
Other income	17	697	1 170
Cost of materials		(33 919)	(29 245)
External services	18	(2 087)	(1 946)
Depreciation expences		(4 691)	(4 350)
Wages	19	(7 112)	(6 027)
Other expences	20	(1 129)	(1 078)
Adjustments	21	2 553	3 504
Operating profit		**3 331**	**2 421**
Net interest expenses	22	(1 953)	(1 880)
Other financial income/(expences)	23	(267)	(331)
Profit before tax		**1 111**	**210**
Taxation	24	(182)	(113)
Profit after taxes		**929**	**97**

		2006	**2005**
		BGN	**BGN**
Income per share	25	**0,465**	**0,048**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2007

SPARKY ELTOS AD

Cash Flow Statement
For The Year Ended 31 December 2006

	Note	TBGN	TBGN
		2006	**2005**
Cash flows from operations			
Net cash inflow from operating activity before interest and tax	26	9 354	7 843
Interest paid		(1 510)	(1 589)
Tax paid		(187)	(157)
		7 657	**6 097**
Cash flows from investing activities			
Capital expenditure		(3 869)	(5 438)
Purchase of current investment		(311)	(244)
Proceeds from sale of non-current assets		466	1 041
		(3 714)	**(4 641)**
Cash flows from financing activities			
Non-current assets finance		128	-
Loans received		-	1 367
Loans paid		(3 681)	(2 053)
Payments under finance leases		(260)	(696)
Other finance lease payments		(39)	(33)
		(3 852)	**(1 382)**
Changes in cash flows during the period		91	74
Cash flows at the beginning of period		128	87
Cash flows at the end of the period	8	**219**	**128**

Prepared by: G. Kalcheva

Managing Director: N. Kalbov

Audited by:

Date: 20.01.2007

SPARKY ELTOS AD

Statement of changes in shareholders' equity
For The Year Ended 31 December 2006
TBGNG

	Share Capital	Revaluation Reserves	Other Reserves	Profit	Total
Balance at 1 January 2005	**2 000**	**15 979**	**11 167**	**38**	**29 184**
Net profit for the year	-	-	-	97	97
Distribution of profit to reserves	-	-	38	(38)	-
Revaluation reserve of non-current assets disposed	-	(352)	-	352	-
Other movements in reserves	-	-	(29)	(4)	(33)
Balance at 1 January 2006	**2 000**	**15 627**	**11 176**	**445**	**29 248**
Net profit for the year	-	-	-	929	929
Distribution of profit to reserves	-	-	445	(445)	-
Other movements in reserves	-	(1)	-	(38)	(39)
Balance at 31 December 2006	**2 000**	**15 626**	**11 621**	**891**	**30 138**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2007

SPARKY ELTOS AD

ACCOUNTING POLICIES

General Info

The Company is a joint-stock company. The Company's registered office, which is also its principal place of business, is Lovech. SPARKY ELTOS AD is a manufacturer of power tools including drills, saws and grinders for professional and home use

The capital of the company is divided into 2,000,000 shares with nominal value of 1 Lev. The shares are divided into the following classes – 97.31% dematerialized shares and 2.69% materialized shares (cash privatization). All shares have the right of 1 vote at the General meeting of the shareholders. The Company's shares are listed on the Bulgarian stock exchange since 2000.

As of 31.12.2006 the company employs 1,341 people.

The Company has two tire type of management system consisting of Supervisory board and Managing board.

Members of the Supervisory board:

Stanislav Petkov

Peter Babourkov

Jordan Peytschev

Members of the Board of directors:

Nikolay Kalbov

Alexander Vladimirov

Peter Atanassov

Gina Kalcheva

Anatoli Ivanov

Miroslav Kalonkin

Evgeni Mihaylov

Stoyan Tzokov

Todor Todorov

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board (IASB) and adopted by the European Union.

Change in accounting policies

Amendments in IFRS effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

Standards early adopted by the Company

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, were early adopted in 2006. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease; and
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and certain financial assets and liabilities. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Foreign Currecy Deals

The financial statements of the company are prepared in Bulgarian leva BGN and that is the official currency the company uses in its reports

As part of the IMF sponsored reforms, a Currency Board arrangement was established in July 1997 through the Bulgarian National Bank Act. The Lev was pegged to the Deutsche mark at the rate of DEM 1 = BGL 1,000. Following the introduction of the Euro and the redenomination of the Lev, the Lev was pegged to the Euro at an exchange rate of BGN 1.95583 to EUR 1.00.

Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates, allowed by the Company. In case similar assets with similar values are exchanged, the transaction is not recognized as generating income.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering a service is recognized when the result of the transaction can be reliably measured.

Operating expenses are recognized in the income statement upon utilization of the service or at the date of their origin.

Investment in Sybsidiaries

Subsidearies are companies controlled by the Company. The control over the subsidiaries is expressed in the ability to manage the financial and operating policy of the subsidiary so that financial benefits are derived as a result from its activity. In the stand alone financial reports of the Company, the investments in subsidiaries are reported with their cost.

Borrowing costs

All borrowing costs are expensed as incurred. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Property, plant and equipment

An item of property, plant and equipment is initially measured at its cost, which comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses according to the alternative approach. Impairment losses are charged against revaluation reserve if no expenses have been accrued before that. If the revalued asset is sold, written off or permanently withdrawn from use, the remaining revaluation reserve is transferred to retained earnings.

As at the date of preparation of the Financial Statements an analysis of the fair value of the items of Property, plant and equipment is performed, aiming the assessment of the necessity of revaluation.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which they incurred.

Property, plant and equipment acquired under finance lease agreement, are depreciated based on their expected useful life, determined by reference to comparable assets or based on the period of the lease contract – the shorter period of time is taken into consideration.

Depreciation is calculated using the straight-line method over the useful life of the assets as follows:

Description	Useful life (in years)
Buildings	25
Machines and equipment	3
All vehicles excluding cars	10
Computer equipment and software	2
Cars	4
Repaired assets with prolonged useful life	50
Other	7

Intangible assets

Intangible fixed assets are measured initially at cost. If an Intangible asset is acquired separately, the cost comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its exploitation. If an Intangible asset is acquired in a business combination, the cost of that Intangible asset is based on its fair value at the date of acquisition.

After initial recognition, an Intangible asset is carried on the basis of recommended approach, i.e. at its cost less any accumulated amortisation and any accumulated depreciation. Depreciations are recognized as expense in the income statement for the respective period.

Subsequent expenditure on a Intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the Intangible asset.

Amortisation is calculated using the straight-line method with the following depreciation rates:

Description	Useful life (in years)
Software	2
Patents and licenses	7

The Company carries careful estimation when establishes whether the criteria for initial recognition as asset of the expenses on development have been met. The Management estimation is based on the entire available information as of the date of the Balance sheet. In addition to all activities related to development of intangible fixed asset are observed and controlled by the Management on a regular basis.

Lease

In accordance with IAS 17 (rev 2005), the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

The related asset is recognized at the time of inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Assets acquired under the terms of finance lease are depreciated in accordance with IAS 16 Property, plant and equipment and/or IAS 38 Intangible assets.

All other leases are treated as operating lease agreements. Operate lease payments are recognized as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

Inventories

Inventories comprise raw materials and supplies, finished goods and purchased goods. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. At the balance sheet date, inventories are carried at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. In case inventories have already been impaired to their net realizable value and in the following period the impairment conditions are no longer present, than a new net realizable value is determined up to the initial value prior impairment. The inventory recovery amount is accounted for as decrease in inventory expenses for the period in which the recovery takes place.

The cost of inventories is assigned by using the weighted average cost, according to the benchmark treatment.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Impairment testing the assets of the company

The Company’s assets are subject to impairment testing at every balance – sheet date, other intangible assets and property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset’s or cash-generating unit’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Financial assets

Company’s financial assets include cash and financial instruments other than hedging instruments. The financial instruments include loans and receivables.

Financial assets are recognized at the date of the transaction.

With the initial recognition of financial asset the Company evaluates it with its fair value. The expenses on the deal which ight be attributed directly to acquiring or issuing of the financial asset are attributed to the value of the financial asset or liabilitiy, with exception of financial assts or liabilities accounted with their fair value in the Income statement.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in the Income statement when received, regardless of how the related carrying amount of financial assets is measured.

Held-to-maturity investments are financial instruments with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if it is the intention of the Company's management to hold them until maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in the income statement.

Financial assets at fair value through profit or loss include financial assets that are accounted or incurred particularly for the purpose of selling or repurchasing in the near term. Derivative financial instruments that do not qualify for hedge accounting are classified as held for trading. Subsequent to initial recognition, the financial instruments included in this category are measured at fair value, except those which have no market value at active markets and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they don't have fixed date of payment

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in the Income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows.

Available-for-sale financial assets include those assets which do not qualify for inclusion in any of the other categories of financial assets: loan and receivables held – to – maturity investments and financial assets at fair value through profit or loss. All financial assets within this category are subsequently measured at fair value, unless there is no market value at active markets present and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they don't have fixed date of payment

Accounting for hedging activities

The company has "ZUNK" loan payable in USD (see note 10) and therefore is exposed to foreign exchange risk. The company has entered into a forward rate agreement with SG Logistics to protect itself against a future exchange movement in the USD/EUR exchange rate. The balance of the hedged position as of 31 December 2006 is USD 3,234,000.

Derivatives are initially recognized at fair value on the date a derivative contract entered into and are subsequently re-measured at their fair value.

Income tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognized in conjunction with goodwill. This applies also to temporary differences associated with shares in subsidiaries and joint ventures if the Company can control reversal of these temporary differences and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets. Deferred tax asset in relation to carried forward losses is recognized to the extent that the realization of the related tax benefits through the future taxable profits is probable.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that are charged directly to equity are charged or credited directly to equity.

Cash and cash equivalent

Cash and cash equivalents include cash at bank and in hand as well as current bank accounts, short term or highly liquid investments which can easily be turned into money and contain insignificant risk of change in value.

Equity

Share capital is determined using the nominal value shares that have been issued.

The revaluation reserve comprises gains and losses due to the revaluation of property, plant and equipment.

Retained earnings include all current and prior period results as determined in the income statement.

Other reserves result from the distribution of profit and include legal reserves and additional reserves.

Employee benefits

The Company has not elaborated and does not apply plans for employee benefits after leaving, nor other long term income and plans for income after leave or ones in the form compensations with shares of the share capital or interest.

The Company reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short term payables to personnel include wages, salaries and related social security payments.

Financial liabilities

The Company's financial liabilities include bank loans and overdrafts, trade and other payables and finance leasing liabilities. They are included in balance sheet line items Current liabilities and Long-term liabilities.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in "finance cost" in the income statement.

Bank loans are raised for support of long term funding of the Company's operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Finance lease liabilities are measured at initial value less the capital element of lease repayments.Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Other provisions, contingent liabilities and contingent assets

Provisions, representing current obligations of the Company arising from past events, the settlement of which is expected to result in an outflow of resources, are recognized as liabilities. A provision is recognized only when the following conditions are present:

- The Company has a present obligation as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In reaching the best estimate of the provision, the Company takes into account the risks and uncertainties that inevitably surround many events and circumstances as well as the effect of the time value of the money, when it is material.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Company does not recognize contingent assets in the financial statements as possible obligations arise, whose existence is not yet confirmed or this may result in the recognition of income that may never be realized.

Property, plant and equipment

	Accounting Value				Accumulated Depreciation				Net Book Value	
	01.01.05	**Additions**	**Disposals**	**31.12.05**	**01.01.05**	**Additions**	**Disposals**	**31.12.05**	**31.12.05**	**31.12.04**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN ева**
Land	13 067	-	-	13 067	-	-	-	-	13 067	13 067
Buildings	10 793	76	-	10 869	3 587	432	-	4 019	6 850	7 206
Plant and machinery	56 246	6 183	897	61 532	46 487	2 979	880	48 586	12 946	9 759
Vehicles	1 477	221	12	1 686	902	271	12	1 161	525	575
Other non-current assets	3 971	1 736	312	5 395	1 829	646	82	2 393	3 002	2 142
Construction in progress*	2 198	4 815	5 291	1 722	-	-	-	-	1 722	2 198
TOTAL:	**87 752**	**13 031**	**6 512**	**94 271**	**52 805**	**4 328**	**974**	**56 159**	**38 112**	**34 947**

	Cost				Accumulated Depreciation				Net Book Value	
	01.01.06	**Additions**	**Disposals**	**31.12.06**	**01.01.06**	**Additions**	**Disposals**	**31.12.06**	**31.12.06**	**31.12.05**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Land	13 067	-	-	13 067	-	-	-	-	13 067	13 067
Buildings	10 869	48	-	10 917	4 019	436	-	4 455	6 462	6 850
Plant and machinery	61 532	4 019	2 458	63 093	48 586	3 263	2 456	49 393	13 700	12 946
Vehicles	1 686	101	-	1 787	1 161	224	-	1 385	402	525
Other non-current assets	5 395	547	199	5 743	2 393	740	3	3 130	2 613	3 002
Construction in progress*	1 722	5 658	4 057	3 323	-	-	-	-	3 323	1 722
TOTAL:	**94 271**	**10 373**	**6 714**	**97 930**	**56 159**	**4 663**	**2 459**	**58 363**	**39 567**	**38 112**

*As at 31 December 2006 the company has signed contracts for the construction of plant and equipment for the amount of TBGN 3,707

	Net Book Value			
	Property, plant and equipment valued according to the alternative approach		Property, plant and equipment valued according to the benchmark treatment	
	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
	TBGN	**TBGN**	**TBGN**	**TBGN**
Land	13 067	13 067	230	230
Buildings	6 462	6 850	4 108	4 496
Plant and machinery	13 700	12 946	13 344	12 590
Vehicles	402	525	398	520
Other non-current assets	2 613	3 002	2 613	3 002
Construction in progress*	3 323	1 722	3 248	1 647
TOTAL:	**39 567**	**38 112**	**23 941**	**22 485**

Pledged property, plant and equipment:

- The loan from Bulbank secured by plant and machinery at the amount of BGN 23 133 818.
- Investment loan from BULBANK is secured by pledge on machinery in the amount of BGN 3 967 657.
- DEG 2001 – first ranking mortgage is registered in favor of DEG in the amount of TEUR 2,280 plus interest of 12% p.a. on its land including all buildings and construction and other works which are fixed or in future will be fixed to the land pari passu with mortgage in favor of the Private investors in the amount of TEUR 576. The loan is also secured by the assets purchased with the received investment amount.
- Private investors 2001 – second ranking mortgage is registered in favor of Private investors in the amount of TEUR 576 plus interest of 12% p.a. on its land including all buildings and construction and other works which are fixed or in future will be fixed to the land pari passu with mortgage in favor of DEG in the amount of TEUR 2,280. The loan is also secured by the assets purchased with the received investment amount.
- DEG 2004 – a mortgage is registered in favor of DEG immediately next in ranking after the mortgage in favor of DEG and Private investors in the amount of TEUR 3,000 plus interest of 12% p.a. on its land including all buildings and construction and other works which are fixed or in future will be fixed to the land. The total amount owing under the agreement should not exceed 60% of the total market value of the encumbered land, buildings and construction works according to the independent valuation made in December 2003.
- DSK Bank – pledge on fixed assets – machinery and equipment In the amount of BGN 388 026.

Non-current Assets

	Cost				Accumulated Depreciation				Net Book Value	
	01.01.05	**Additions**	**Disposals**	**31.12.05**	**01.01.05**	**Additions**	**Disposals**	**31.12.05**	**31.12.05**	**31.12.04**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Patents	55	82	-	137	24	13	-	37	100	31
Software	751	-	100	651	741	5	100	646	5	10
Other Non-current assets	25	-	-	25	14	4	-	18	7	11
TOTAL:	**831**	**82**	**100**	**813**	**779**	**22**	**100**	**701**	**112**	**52**

	Cost				Accumulated Depreciation				Net Book Value	
	01.01.06	**Additions**	**Disposals**	**31.12.06**	**01.01.06**	**Additions**	**Disposals**	**31.12.06**	**31.12.06**	**31.12.05**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**

Patents	137	209	-	346	37	23	-	60	286	100
Software	651	1	-	652	646	3	-	649	3	5
Other Non-current assets	25	-	-	25	18	2	-	20	5	7
TOTAL:	**813**	**210**	**-**	**1 023**	**701**	**28**	**-**	**729**	**294**	**112**

Investments

Long-term investments represent shares which SPARKY Eltos AD holds in different companies with a total value of BGN 17 000. The shares refer to the following companies: Elresurs AD – BGN 5 000 and fund Industria – BGN 12 000. All financial assets within this category are subsequently measured at fair value, unless there is no market value at active markets present and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they don't have fixed date of payment.

Current investments represent the purchase of government securities, which are used for the repayment of the liabilities under the ZUNK liability.

Inventories

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Materials	13 177	11 100
Work in progress	6 259	5 748
Finished goods	1 486	1 367
Goods	288	301
	21 210	**18 516**

Pledged and secured inventory:

- The loan from BULBANK secured with raw materials inventory balance of at least BGN 4 060 840.
- Investment loan from BULBANK is secured by pledge on deliveries and materials of BGN 1 012 353.
- First Investment Bank AD – pledge on inventory - set of stators.

Related party receivables

	31.12.2006	31.12.2005
	TBGN	**TBGN**
SG Logistics Ltd.	14	8 545
SPARKY AD, Rousse	5	28
	19	**8 573**

Accounts receivable and prepayments

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Receivables from suppliers and customers	5 491	1 285
VAT recoverable	558	390
Legal and awarded claims	12	76

Other current receivables	213	362
Prepaid expences	44	64
	6 318	**2 177**

Cash and cash equivalents

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Cash in hand	8	8
Cash at Bank in Leva	142	108
Cash at Bank in Foreign Currency	61	4
Deposits in Leva	8	8
	219	**128**

Ordinary shares

	Number	31.12.2006	31.12.2005
		TBGN	**TBGN**
Ordinary shares	2 000 000	2 000	2 000
		2 000	**2 000**

The Share Capital is BGN 2,000,000 and is divided to 1 946 277 dematerialized voting shares with face value of BGN 1.00 and 53 723 materialized shares with face value of BGN 1.00.

Revaluation reserve

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Non-current tangible Assets:		
Revaluation according to the accounting laws	3 900	3 901
in force prior to 31 December 2001	11 726	11 726
	15 626	**15 627**

Long-term loans

The fair value of the long-term liabilities is determined by means of calculation of their present value as of the date of the Balance sheet through effective interest method. In the Income statement are not reflected the changes in the fair value of the long-term liabilities as in the Balance sheet they are included with their depreciable value. Generally, the long-term liabilities represent liabilities on bank loans, loans form related parties and financial leasing.

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Related party payables:		
▪ SPARKY GmbH 2001	548	822

▪ SG Logistics Ltd.	1 564	2 190
	2 112	**3 012**

	31.12.2006	**31.12.2005**
	TBGN	**TBGN**
Non-current tangible assets finance	**128**	**-**
Bank Liabilities:		
▪ Bulbank – revolving loan	**8 606**	**8 606**
▪ Bulbank – investment credit	**424**	**751**
▪ DEG 2001	**1 274**	**1 911**
▪ DEG 2004	**2 933**	**4 107**
▪ Private investors 2001	**321**	**482**
Long – term portion of ZUNK liability BGN	**874**	**950**
Long – term portion of ZUNK liability USD	**4 249**	**5 156**
Hedging of long-term portion of ZUNK liability	**1 145**	**706**
	19 954	**23 669**

Bulbank (2004)

During 2005 the loan was renegotiated and the amount extended to SPARKY ELTOS by BULBANK AD was increased to TEUR 4,400. The loan is ultimately repayable on 25 April 2007. After an annual review and a positive assessment of the financial status of the company, the loan could be extended by further 18 months.

In 2004 BULBANK extended a TEUR 500 investment loan to the company. The loan is repayable in 35 equal monthly installments of TEUR 13.9, starting May 2006 and a final installment of TEUR 13.5. The loans are secured with pledge over machines and equipment and inventory owned by SPARKY ELTOS AD.\

The interest rate applicable to both loans is the 6-month EURIBOR+4.9%

<u>Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and SG Logistics Limited (2004)</u>

On 29 June 2004 the company signed two long-term investment contracts for a total of TEUR 4,600. The loans were granted by DEG (TEUR 3,000) and SG Logistics Limited (TEUR 1,600).

The loans are repayable in 26 equal quarterly installments starting on 15 September 2005. The interest on the loans is the 3-month EURIBOR+2.8%.

The loan from DEG is secured by a next-ranking mortgage over real property, a pledge over the machines and equipment which are to be acquired under the agreement, a first demand payment guarantee by SPARKY GmbH, and a first demand payment guarantee by SG Logistics Limited. The loan from SG Logistics Limited is not secured.

<u>Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), private investors, represented by Mr. D. H. Westphal (private investors), SPARKY GmbH (2001)</u>

In order to expand its operations by establishing additional manufacturing facilities, on 20 December 2001, SPARKY ELTOS AD signed the following long-term loan contracts:

Lender	**Principal TEUR**
DEG	2,280

Private investors	576
SPARKY GmbH	980
	3,836

The interest rate is the six-month EURIBOR rate plus 3.5% p.a. and is payable in arrears semi-annually. The loans are repayable in 14 equal semi-annual installments starting 15 May 2004.

The loans from DEG and Mr. D. H. Westphal are secured by a first ranking mortgage in favor of DEG, pari passu with a mortgage in favor of Mr. D. H. Westphal. The loan from SPARKY GmbH is not secured.

ZUNK

The "ZUNK" loan represents an obligation of SPARKY ELTOS AD to the Government of Bulgaria. Initially it represented a loan extended to SPARKY ELTOS AD by the Moscow Industrial Bank, which was subsequently transformed into a payable to the Bulgarian government. In 2004 the Company negotiated a new repayment plan for the ZUNK liability. The long-term portion of the loan represents all installments due in and after 2008. The interest rate is 7.0 % per annum.The ZUNK can either be repaid in cash at its nominal value or repaid by purchasing ZUNK bonds and exchanging them with the ZUNK liabilities at the nominal value of the ZUNK bonds.

Finance Lease

The company currently has thirteen finance lease agreements as of 31 December 2006, which relate to production equipment — grundmaschine mit CNC control, centerless grinding machine, internal grinding machine, 2 stands for electrical parameters testing of armatures for commutator electric motor, 4 winding machines, commutator turning machine, commutator slot cutting machine, 3 lathes for long details with CNC control; injection molding machine. The net carrying amount of the assets held under the lease is BGN 6 515 000.

Future minimum lease payments as per 31 December 2006 are as follows:

	Up to 1 year TBGN	**1 to 5 years TBGN**	**Total TBGN**
Lease payments	1 384	4 300	5 684
Discounts	(328)	(500)	(828)
Net present value	**1 056**	**3 800**	**4 856**

The lease agreements include fixed lease payments and a purchase option at the end of the lease terms. The agreements are non-cancelable but do not contain any further restrictions.

Accounts payable and accruals

	31.12.2006 TBGN	**31.12.2005 TBGN**
Trade payable	4 106	3 820
Payables to employees	1 043	1 047
Payables to national social security	531	584
Tax payables	362	377
Interest payable	134	153
Other payables	62	52
	6 238	**6 033**

Related party payables

	31.12.2006	31.12.2005
	TBGN	TBGN
SG Logistics Ltd.	-	90
- interest payable	7	7
SPARKY GmbH	5	23
- interest payable	8	9
SPARKY AD Rousse	-	54
SPARKY Group AD	77	9
	97	**192**

Short-term loans

	31.12.2006	31.12.2005
	TBGN	TBGN
Related party payables:		
▪ SPARKY GmbH 2001	274	274
▪ SG Logistics Ltd.	626	626
	900	**900**
Bank Liabilities:		
▪ Bulbank - overdraft	38	47
▪ Bulbank – investment loan	327	217
▪ DEG 2001	637	637
▪ Private investors 2001	161	161
▪ DEG 2004	1 174	1 174
▪ DSK Bank	-	175
▪ First Investment Bank	200	200
Short-term portion of ZUNK liability BGN	114	95
Short-term portion of ZUNK liability USD	554	516
Hedging of long-term portion of ZUNK liability	149	70
	3 354	**3 292**

The short term portion of the loan from BULBANK represents the utilized portion of an overdraft facility. The allowed amount of the overdraft is TBGN 125

First Investment Bank

During 2005 a contract was signed with First Investment Bank for an overdraft facility with maximum allowed amount of the overdraft- TBGN 200 (TEUR 102). The overdraft can be used until 25.08.2007. The interest of the overdraft is determined as the base interest rate of BNB (Bulgarian National Bank) is increased with 6.00%.

DSK Bank

A contract for overdraft- loan was signed during 2005 for a period of 12 months. The amount of the overdraft cannot exceed TEUR 90 and can be used until 14.07.2006. The interest rate for the loan will be the 3 month EURIBOR plus 5.00%.

Sales

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Sales of finished products	47 005	37 474
Other sales	2 014	2 919
	49 019	**40 393**

Other Income

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Income from sale of fixed assets (without products)	2 637	3 066
Balance value of the assets sold (without products)	(1 940)	(1 896)
	697	**1 170**

Expences for External Services

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Transport	(89)	(121)
Repairment	(458)	(352)
Tax	(223)	(244)
Telecomunications	(402)	(390)
Other	(915)	(839)
	(2 087)	**(1 946)**

Wages

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Wages	(5 699)	(4 600)
Social Security	(1 413)	(1 427)
	(7 112)	**(6 027)**

Other Expences

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Social Expences	(40)	(23)
Overhead expenses	(231)	(194)
Donations	(54)	(21)
Business trips	(225)	(233)
Other services	(579)	(607)
	(1 129)	**(1 078)**

Adjustments

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Expenses for acquisition and liquidation of tangible assets by using own resources and materials	842	507
Increase of products in store, work in progress	630	2 351
Other adjustment	1 081	646
	2 553	**3 504**

Interest expense (net)

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Interest expense	(1 953)	(1 880)
	(1 953)	**(1 880)**

Financial expense

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Finance lease expenses	(252)	(233)
Interest for overdrafts and bank accounts	(191)	(180)
Investment income from repaying interest on ZUNK liability	152	109
Foreign exchange gains	1 340	790
Foreign exchange losses	(1 316)	(817)
	(267)	**(331)**

Income tax expenses

The relationship between the expected tax expense based on the effective tax rate of the company at 15.00% (2006: 10.00%) and the tax expense actually recognised in the income statement can be reconciled as set below. The temporary differences in 2005 and 2006 are result of unused annual paid leaves for the amounts of 28,872 EUR in 2005 and 10,348 EUR in 2006. The deferred tax income is recognized at 10% tax rate for the year 2007.

	31.12.2006	31.12.2005
	TBGN	**TBGN**
Result for the year before tax	1 111	210
Tax rate	15.00%	15.00%
Expected tax expense	(167)	(32)

	Base amount **сума**	**Tax effect**	**Base amount**	**Tax effect**
Adjustment for tax exempt income	(4 747)	712	(4 698)	705
Adjustment for non-deductible expenses	4 810	(722)	5 201	(780)
Current tax expense	1 174	(167)	713	(107)
Deferred tax income / (expense)		2		9
Reversal of temporary differences		(8)		(15)
Actual tax expense (net)		**(182)**		**(113)**

Earnings per share

As of 31.12.2006 the company has not issued any securities, which could be transferred into ordinary shares.

Basic earnings per share have been calculated using the net results attributable to shareholders of the company as numerator.

The weighted average number of outstanding shares used for basic earnings per share as well as profits attributable to shareholders is as follows:

	31.12.2006	**31.12.2005**
Profit attributable to equity holders of the Company (BGN)	929 839	96 693
Weighted average number of ordinary shares in issue	2 000 000	2 000 000
Basic earnings per share (BGN per share)	0,465	0,048

Net cash inflow from operating activities before interest and tax

	31.12.2006	**31.12.2005**
	TBGN	**TBGN**
Profit before interest and tax	3 064	2 090
Adjustments:		
Depreciation and amortization	4 691	4 350
(Profit) on disposal of fixed assets	(108)	(400)
Gain from operations with short-term financial assets	(152)	(109)

(Increase) in inventories	(2 694)	(4 940)
(Increase)/ decrease in receivables	4 417	10 519
Increase in payables	136	(3 667)
	9 354	**7 843**

Related party transactions

	31.12.2006	**31.12.2005**
	TBGN	**TBGN**
Related party sales		
SG Logistics Ltd	37 586	29 136
SPARKY AD Rousse	338	837
СПАРКИ ГмбХ	2 582	2 141
	40 513	**32 114**
Related party purchases		
SPARKY AD Rousse	160	298
SPARKY GmbH	2 956	2 410
SPARKY BULGARIA AD	90	43
	3 206	**2 751**

	31.12.2006	**31.12.2005**
	TBGN	**TBGN**
Currency differences resulting from hedged position		
SG Logistics Ltd.	(61)	(89)
Interest paid		
SG Logistics Ltd.	(162)	(157)
SPARKY GmbH	(64)	(74)
	(226)	**(231)**

Contingent assets and contingent liabilities

At of 31 December 2006 the company has issued a promissory note to BULBANK AD for the amount of TEUR 4,400. The company has also issued a promissory note to BULBANK AD for the amount of TEUR 500. A promissory note has been issued to DSK for the amount of the credit TEUR 90 plus the annual interest.

Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates. The management monitors the overall risk and seeks to minimize potential adverse effects on the financial performance of the Company.

Foreign exchange risk

The Company operates in Bulgaria and is currently exposed to foreign exchange risk arising from ZUNK liability in US dollars, which has been hedged through a forward agreement (see Note 1 (vii)). The exposure involved is closely monitored to ensure effective and efficient risk management.

Interest rate risk

The Company borrows at floating rates and the exposures involved are monitored regularly.

Credit risk

The Company has significant concentrations of credit risk to debtors of proven credit history. The Company has policy in place to ensure that sales are made to customers with an appropriate credit history.

Liquidity risk

The Company has managed to maintain flexibility by keeping committed credit lines available.

Post-balance sheet events

The management of the company confirms that no significant events, the non-disclosure of which would affect the true and fair presentation of the financial statements, have occurred between the balance sheet date and the date of preparation of the financial statements.

SPARKY ELTOS AD

Financial Statement

2005

T A B L E O F C O N T E N T S

SPARKY ELTOS AD

Balance Sheet At 31 December 2005	**Note**	**TBGN**	**TBGN**
Assets		**2005**	**2004**

Long-term assets			
Property, plant and equipment	2	38 112	34 947
Intangible assets	3	112	52
Non-current financial assets		12	12
Deferred tax assets		8	15
		38 244	**35 026**
Current assets			
Inventories	4	18 516	13 576
Related party receivables	5	8 573	13 492
Receivables and advance payments	6	2 177	7 777
Cash	7	128	87
Current financial assets		2	5
		29 396	**34 937**
Total assets		**67 640**	**69 963**
Equity			
Share capital	8	2 000	2 000
Revaluation reserve	9	15 627	15 979
Other reserves		11 176	11 167
Financial result		445	38
		29 248	**29 184**
Non-current liabilities			
Long-term loans	10	27 445	27 885
		27 445	**27 885**
Current liabilities			
Liabilities and advance payments	11	6 033	8 546
Liabilities to related parties	12	192	771
Short-term loans	13	4 722	3 577
		10 947	**12 894**
Total equity and liabilities		**67 640**	**69 963**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2006

SPARKY ELTOS AD

Income Statement	**Note**		
For The Year Ended 31 December 2005		**TBGN**	**TBGN**
		2005	**2004**

Sales	14	**43 459**	**42 738**
Cost of materials		(29 245)	(29 939)
External services		(1 946)	(2 006)
Depreciation expences		(4 350)	(4 442)
Wages	15	(6 027)	(5 313)
Other expences		(1 078)	(695)
Adjustments	16	1 608	780
Operating profit		**2 421**	**1 123**
Net interest expenses	17	(1 880)	(1 761)
Other financial income/(expences)	18	(331)	743
Profit before tax		**210**	**105**
Taxation	19	(113)	(91)
Profit after taxes		**97**	**14**

		2005	**2004**
		лв.	**лв.**
Income per share	20	**0,048**	**0,007**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2006

SPARKY ELTOS AD

Cash Flow Statement

For The Year Ended 31 December 2005 **Note**

	Note	TBGN 2005	TBGN 2004
Cash flows from operations			
Net cash inflow from operating activity before interest and tax	21	7 843	(1 570)
Interest paid		(1 589)	(1 508)
Tax paid		(157)	(155)
		6 097	**(3 233)**
Cash flows from investing activities			
Capital expenditure		(5 438)	(7 039)
Purchase of current investment		(244)	(337)
Proceeds from sale of non-current assets		1 041	52
		(4 641)	**(7 324)**
Cash flows from financing activities			
Loans received		1 367	13 426
Loans paid		(2 053)	(2 615)
Payments under finance leases		(696)	(215)
		(1 382)	**10 596**
Changes in cash flows during the period		74	39
Changes in reserves		(33)	(19)
Cash flows at the beginning of period		87	67
Cash flows at the end of the period	7	**128**	**87**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2006

SPARKY ELTOS AD

Statement of changes in shareholders' equity

For The Year Ended 31 December 2005

TBGN

	Share Capital	Revaluation Reserves	Other Reserves	Profit	Total
Balance at 1 January 2004	**2 000**	**16 003**	**10 405**	**781**	**29 189**
Net profit for the year	-	-	-	14	14
Distribution of profit to reserves	-	-	781	(781)	-
Revaluation reserve of non-current assets disposed	-	(24)	-	24	-
Other movements in reserves	-	-	(19)	-	(19)
Balance at 1 January 2005	**2 000**	**15 979**	**11 167**	**38**	**29 184**
Net profit for the year	-	-	-	97	97
Distribution of profit to reserves	-	-	38	(38)	-
Revaluation reserve of non-current assets disposed	-	(352)	-	352	-
Other movements in reserves	-	-	(29)	(4)	(33)
Balance at 31 December 2005	**2 000**	**15 627**	**11 176**	**445**	**29 248**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2006

ACCOUNTING POLICIES

General Info

The Company is a joint- stock company. The Company's registered office, which is also its principal place of business, is Lovech. SPARKY ELTOS AD is a manufacturer of power tools including drills, saws and grinders for professional and home use.

The capital of the company is divided into 2,000,000 shares with nominal value of 1 Lev. The shares are divided into the following classes – 97.31% dematerialized shares and 2.69% materialized shares. All shares have the right of 1 vote at the General meeting of the shareholders. The Company's shares are listed on the Bulgarian stock exchange since 2000.

As of 31.12.2005 the company employs 1,181 people.

The Company has two tire type of management system consisting of Supervisory board and Managing board.

Members of the Supervisory board:

Stanislav Petkov

Peter Babourkov

Jordan Peytschew

Members of the Board of directors:

Nikolay Kalbov

Alexander Vladimirov

Peter Atanassov

Gina Kalcheva

Anatoli Ivanov

Miroslav Kalonkin

Evgeni Mihaylov

Stoyan Tzokov

The financial statements for the year ended 31 December 2005 (including the comparative information for the year ended 31 December 2004) were approved by the Board of directors on 24.01.2006.

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board (IASB) and adopted by the European Union.

Change in accounting policies

In 2003 and 2004, the IASB issued a series of new International Financial Reporting Standards (IFRS) and revised International Accounting Standards (IAS), which in conjunction with unrevised IAS issued by the International

Accounting Standards Committee, predecessor to the IASB, is referred to as "the IFRS Stable Platform 2005". The Group applies the IFRS Stable Platform 2005 from 1 January 2005.

This includes the following new and revised standards:

IAS 1 (rev 2003)	Presentation of Financial Statements
IAS 2 (rev 2003)	Inventories
IAS 8 (rev 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (rev 2003)	Events after the Balance Sheet Date
IAS 16 (rev 2003)	Property, Plant and Equipment
IAS 17 (rev 2003)	Leases
IAS 21 (rev 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (rev 2003)	Related Party Disclosures
IAS 27 (rev 2003)	Consolidated and Separated Financial Statements
IAS 28 (rev 2003)	Investments in Associates
IAS 31 (rev 2003)	Interests in Joint Ventures
IAS 32 (rev 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (rev 2003)	Earnings per Share
IAS 36 (rev 2004)	Impairment of Assets
IAS 38 (rev 2004)	Intangible Assets
IAS 39 (rev 2004)	Financial Instruments: Recognition and Measurement
IAS 40 (rev 2003)	Investment Property
IFRS 1 (2003)	First Time Adoption of IFRS
IFRS 2 (2003)	Share-based Payments
IFRS 3 (2004)	Business Combinations
IFRS 5 (2004)	Non-current Assets Held for Sale and Discontinued Operations

On principle, the requirements of the new standards have been applied retrospectively, i.e. with amendments to the 2004 accounts and their presentation in accordance with IAS 8 (rev2003), except where specific transitional provisions require a different treatment.

Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and certain financial assets and liabilities. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Foreign Currecy Deals

The financial statements of the company are prepared in Bulgarian leva BGN and that is the official currency the company uses in its reports

As part of the IMF sponsored reforms, a Currency Board arrangement was established in July 1997 through the Bulgarian National Bank Act. The Lev was pegged to the Deutsche mark at the rate of DEM 1 = BGL 1,000. Following the introduction of the Euro and the redenomination of the Lev, the Lev was pegged to the Euro at an exchange rate of BGN 1.95583 to EUR 1.00.

Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates, allowed by the Company. In case similar assets with similar values are exchanged, the transaction is not recognized as generating income.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering a service is recognized when the result of the transaction can be reliably measured.

Operating expenses are recognized in the income statement upon utilization of the service or at the date of their origin.

Borrowing costs

All borrowing costs are expensed as incurred. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Property, plant and equipment

An item of property, plant and equipment is initially measured at its cost, which comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses according to the alternative approach. Impairment losses are charged against revaluation reserve if no expenses have been accrued before that. If the revalued asset is sold, written off or permanently withdrawn from use, the remaining revaluation reserve is transferred to retained earnings.

The value of land was determined by an independent valuation in 2003.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which they incurred.

Plant and equipment expenditures during the course of construction are valued at cost.

Property, plant and equipment acquired under finance lease agreement, are depreciated based on their expected useful life, determined by reference to comparable assets or based on the period of the lease contract – the shorter period of time is taken into consideration.

Depreciation is calculated using the straight-line method over the useful life of the assets as follows:

Description	**Useful life (in years)**
Buildings	25
Machines and equipment	3
All vehicles excluding cars	10
Computer equipment and software	2
Cars	4
Repaired assets with prolonged useful life	50
Other	7

Intangible assets

Intangible fixed assets are measured initially at cost. If an intangible asset is acquired separately, the cost comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use. If an intangible asset is acquired in a business combination, the cost of that intangible asset is based on its fair value at the date of acquisition.

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Impairment losses are recognized in the current period income statement.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Amortisation is calculated using the straight-line method with the following depreciation rates:

Description	**Useful life (in years)**
Software	2
Patents and licenses	7

Costs associated with research and development activities are expensed in the income statement as they occur.

Lease

In accordance with IAS 17 (rev 2003), the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

The related asset is recognized at the time of inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs.

Assets acquired under the terms of finance lease are depreciated in accordance with IAS 16 Property, plant and equipment and/or IAS 38 Intangible assets.

All other leases are treated as operating lease agreements. Operate lease payments are recognized as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

Impairment testing the assets of the company

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset’s or cash-generating unit’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Financial assets

Company’s financial assets include cash and financial instruments other than hedging instruments. They can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in the Income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows.

Accounting for hedging activities

The company has "ZUNK" loan payable in USD and therefore is exposed to foreign exchange risk. The company has entered into a forward rate agreement with SG Logistics to protect itself against a future exchange movement in the USD/EUR exchange rate, at the agreed rate of USD/EUR 1.03760/1.00, on the balance of the loan as at 5 January 2003 (USD 4,360,300). The balance of the hedged position as of 31 December 2005 is 3,421,000 USD.

Derivatives are initially recognized at fair value on the date a derivative contract entered into and are subsequently re-measured at their fair value.

Inventories

Inventories comprise raw materials and supplies, finished goods and purchased goods. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. At the balance sheet date, inventories are carried at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. In case inventories have already been impaired to their net realizable value and in the following period the impairment conditions are no longer present, than a new net realizable value is determined up to the initial value prior impairment. The inventory recovery amount is accounted for as decrease in inventory expenses for the period in which the recovery takes place.

The cost of inventories is assigned by using the weighted average cost, according to the benchmark treatment.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Income tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognized in conjunction with goodwill. This applies also to temporary differences associated with shares in subsidiaries and joint ventures if the Company can control reversal of these temporary differences and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets. Deferred tax asset in relation to carried forward losses is recognized to the extent that the realization of the related tax benefits through the future taxable profits is probable.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that are charged directly to equity are charged or credited directly to equity.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as current bank accounts, short term or highly liquid investments which can easily be turned into money and contain insignificant risk of change in value.

Equity

Share capital is determined using the nominal value shares that have been issued.

The revaluation reserve comprises gains and losses due to the revaluation of property, plant and equipment.

Retained earnings include all current and prior period results as determined in the income statement.

Other reserves result from the distribution of profit and include legal reserves and additional reserves.

Employee benefits

The Company has not elaborated and does not apply plans for employee benefits after leaving, nor other long term income and plans for income after leave or ones in the form compensations with shares of the share capital or interest.

The Company reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short term payables to personnel include wages, salaries and related social security payments.

Financial liabilities

The Company's financial liabilities include bank loans and overdrafts, trade and other payables and finance leasing liabilities. They are included in balance sheet line items Current liabilities and Long-term liabilities.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in "finance cost" in the income statement.

Bank loans are raised for support of long term funding of the Company's operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Finance lease liabilities are measured at initial value less the capital element of lease repayment. Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Other provisions, contingent liabilities and contingent assets

Provisions, representing current obligations of the Company arising from past events, the settlement of which is expected to result in an outflow of resources, are recognized as liabilities. A provision is recognized only when the following conditions are present:

- The Company has a present obligation as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In reaching the best estimate of the provision, the Company takes into account the risks and uncertainties that inevitably surround many events and circumstances as well as the effect of the time value of the money, when it is material.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Company does not recognize contingent assets in the financial statements as possible obligations arise, whose existence is not yet confirmed or this may result in the recognition of income that may never be realized.

Property, plant and equipment

	Cost				Accumulated Depreciation				Net Book Value ст	
	01.01.05	Additions	Disposals	31.12.05	01.01.05	Additions	Disposals	31.12.05	31.12.05	31.12.04
	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN
Land	13 067	-	-	13 067	-	-	-	-	13 067	13 067
Buildings	10 793	76	-	10 869	3 587	432	-	4 019	6 850	7 206
Plant and machinery	56 246	6 183	897	61 532	46 487	2 979	880	48 586	12 946	9 759
Vehicles	1 477	221	12	1 686	902	271	12	1 161	525	575
Other non-current assets	3 971	1 736	312	5 395	1 829	646	82	2 393	3 002	2 142
Construction in progress*	2 198	4 815	5 291	1 722	-	-	-	-	1 722	2 198
TOTAL:	**87 752**	**13 031**	**6 512**	**94 271**	**52 805**	**4 328**	**974**	**56 159**	**38 112**	**34 947**

* As at 31 December 2005 the company has signed contracts for the construction of plant and equipment for the amount of BGN 1 951 000.

	Net book value			
	Property, plant and equipment valued according to the alternative approach		Property, plant and equipment valued according to the benchmark treatment	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	TBGN	TBGN	TBGN	TBGN
Land	13 067	13 067	230	230
Buildings	6 850	7 206	4 496	4 852
Plant and machinery	12 946	9 759	12 590	9 051
Vehicles	525	575	520	570
Other non-current assets	3 002	2 142	3 002	2 142
Construction in progress*	1 722	2 198	1 647	2 143
TOTAL:	**38 112**	**34 947**	**22 485**	**18 968**

Pledged property, plant and equipment:

- The loan from Bulbank secured by plant and machinery at the amount of BGN 23 133 818.
- Investment loan from BULBANK is secured by pledge on machinery in the amount of BGN 3 967 657.
- DEG 2001 – first ranking mortgage is registered in favor of DEG in the amount of TEUR 2,280 plus interest of 12% p.a. on its land including all buildings and construction and other works which are fixed or in future will be fixed to the land pari passu with mortgage in favor of the Private investors in the amount of TEUR 576. The loan is also secured by the assets purchased with the received investment amount.
- Private investors 2001 – second ranking mortgage is registered in favor of Private investors in the amount of TEUR 576 plus interest of 12% p.a. on its land including all buildings and construction and other works which are fixed or in future will be fixed to the land pari passu with mortgage in favor of DEG in the amount of TEUR 2,280. The loan is also secured by the assets purchased with the received investment amount.
- DEG 2004 – a mortgage is registered in favor of DEG immediately next in ranking after the mortgage in favor of DEG and Private investors in the amount of TEUR 3,000 plus interest of 12% p.a. on its land including all buildings and construction and other works which are fixed or in future will be fixed to the land. The total amount owing under the agreement should not exceed 60% of the total market value of the encumbered land, buildings and construction works according to the independent valuation made in December 2003.
- DSK Bank – pledge on fixed assets – machinery and equipment In the amount of BGN 388 026.

Intangible assets

	Cost				Accumulated Depreciation				Net Book Value c	
	01.01.05	Additions	Disposals	31.12.05	01.01.05	Additions	Disposals	31.12.05	31.12.05	31.12.04
	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN	TBGN
Patents	55	82	-	137	24	13	-	37	100	31
Software	751	-	100	651	741	5	100	646	5	10
Other intangible assets	25	-	-	25	14	4	-	18	7	11
TOTAL:	**831**	**82**	**100**	**813**	**779**	**22**	**100**	**701**	**112**	**52**

Inventories

	31.12.2005	31.12.2004
	TBGN	TBGN
Raw materials and consumables	11 100	8 604
Work in progress	5 748	3 834
Finished goods	1 367	930
Goods	301	208
	18 516	**13 576**

Pledged and secured inventory:

- The loan from BULBANK secured with raw materials inventory balance of at least BGN 4 060 840.
- Investment loan from BULBANK is secured by pledge on deliveries and materials of BGN 1 012 353.
- First Investment Bank AD – pledge on inventory - set of stators.

Related party receivables

	31.12.2005	31.12.2004
	TBGN	TBGN
SG Logistics Ltd.	8 545	13 456
SPARKY AD, Rousse	28	36
	8 573	**13 492**

Receivable and prepayments

	31.12.2005	31.12.2004
	TBGN	TBGN
Receivables from suppliers and customers	1 285	7 185
VAT recoverable	390	354
Legal and awarded claims	76	104

Other current receivables	362	111
Prepaid expenses	64	23
	2 177	**7 777**

Cash and cash equivalents

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Cash in hand	8	18
Cash at Bank in Leva	108	51
Cash in hand in Foreign Currency	4	10
Deposits in Leva	8	8
	128	**87**

Ordinary shares

	Number	31.12.2005	31.12.2004
		TBGN	**TBGN**
Ordinary shares	2 000 000	2 000	2 000
		2 000	**2 000**

The Share Capital is BGN 2,000,000 and is divided to 1 946 277 dematerialized voting shares with face value of BGN 1.00 and 53 723 materialized shares with face value of BGN 1.00.

Revaluation reserve

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Non-current tangible assets		
Revaluation according to the accounting laws	3 901	4 253
Land revaluation	11 726	11 726
	15 627	**15 979**

Long-term loans

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Related party payables:		
▪ SPARKY GmbH 2001	822	1 095
▪ SG Logistics Ltd.	2 190	2 817
	3 012	**3 912**

Bank Liabilities:

▪ Bulbank – revolving loan	8 606	7 134
▪ Bulbank – investment credit	751	934
▪ DEG 2001	1 911	2 548
▪ DEG 2004	4 107	5 281
▪ Private investors 2001	482	644
Long – term portion of ZUNK liability BGN	950	1 026
Long – term portion of ZUNK liability USD	5 156	4 823
Hedging of long-term portion of ZUNK liability	706	1 508
Long – term portion of lease liability	1 764	75
	24 433	**23 973**

Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and SG Logistics Limited (2004)

On 29 June 2004 the company signed two long-term investment contracts for a total of TEUR 4,600. The loans were granted by DEG (TEUR 3,000) and SG Logistics Limited (TEUR 1,600).

The loans are repayable in 26 equal quarterly installments starting on 15 September 2005. The interest on the loans is the 3-month EURIBOR+2.8%.

The loan from DEG is secured by a next-ranking mortgage over real property, a pledge over the machines and equipment which are to be acquired under the agreement, a first demand payment guarantee by SPARKY GmbH, and a first demand payment guarantee by SG Logistics Limited. The loan from SG Logistics Limited is not secured.

Bulbank (2004)

During 2005 the loan was renegotiated and the amount extended to SPARKY ELTOS by BULBANK AD was increased to TEUR 4,400. The loan is ultimately repayable on 25 April 2007. After an annual review and a positive assessment of the financial status of the company, the loan could be extended by further 18 months.

In 2004 BULBANK extended a TEUR 500 investment loan to the company. The loan is repayable in 35 equal monthly installments of TEUR 13.9, starting May 2006 and a final installment of TEUR 13.5. The loans are secured with pledge over machines and equipment and inventory owned by SPARKY ELTOS AD.\

The interest rate applicable to both loans is the 6-month EURIBOR+4.9%

Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), private investors, represented by Mr. D. H. Westphal (private investors), SPARKY GmbH (2001)

In order to expand its operations by establishing additional manufacturing facilities, on 20 December 2001, SPARKY ELTOS AD signed the following long-term loan contracts:

Lender	**Principal EUR**
DEG	2,280,000
Private investors	576,000
SPARKY GmbH	980,000
	3,836,000

The interest rate is the six-month EURIBOR rate plus 3.5% p.a and is payable in arrears semi-annually. The loans are repayable in 14 equal semi-annual instalments starting 15 May 2004.

The loans from DEG and Mr. D. H. Westphal are secured by a first ranking mortgage in favour of DEG, pari passu with a mortgage in favour of Mr. D. H. Westphal. The loan from SPARKY GmbH is not secured.

ZUNK

The “ZUNK” loan represents an obligation of SPARKY ELTOS AD to the Government of Bulgaria. Initially it represented a loan extended to SPARKY ELTOS AD by the Moscow Industrial Bank, which was subsequently transformed into a payable to the Bulgarian government. In 2004 the Company negotiated a new repayment plan for the ZUNK liability. The long-term portion of the loan represents all installments due in and after 2007. The interest rate is 7.0 % per annum. The ZUNK can either be repaid in cash at its nominal value or repaid by purchasing ZUNK bonds and exchanging them with the ZUNK liabilities at the nominal value of the ZUNK bonds.

Finance Lease

The Company currently has nine finance lease agreement as to 31 December 2005, which relates to production equipment, a bus, a truck, computers and servers. The net carrying amount of the assets held under the lease is TEUR 1,419.

Future minimum lease payments as per 31 December 2005 are as follows:

	Up to 1 year TBGN	1 to 5 years TBGN	Total TBGN
Lease payments	677	1 989	2 666
Discounts	(147)	(225)	(372)
Net present value	**530**	**1 764**	**2 294**

The lease agreements include fixed lease payments and a purchase option at the end of the lease terms. The agreements are non-cancelable but do not contain any further restrictions.

Accounts payable and accruals

	31.12.2005 TBGN	31.12.2004 TBGN
Payables to suppliers and customers	3 820	6 620
Payables to employees	1 047	722
Payables to national social security	584	477
Tax payables	377	470
Interest payable	153	234
Other payables	52	23
	6 033	**8 546**

Related party payables

	31.12.2005 TBGN	31.12.2004 TBGN
SG Logistics Ltd.	97	-
SPARKY GmbH	32	-
SPARKY AD Rousse	54	771

SPARKY GROUP AD	9	-
	192	**771**

Short-term loans

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Related party payables:		
▪ SPARKY GmbH 2001	274	274
▪ SG Logistics Ltd.	626	313
	900	**587**
Bank Liabilities:		
▪ Bulbank - overdraft	47	561
▪ Bulbank – investment loan	217	-
▪ DEG 2001	637	637
▪ Private investors 2001	161	241
▪ DEG 2004	1 174	587
▪ DSK Bank	175	-
▪ First Investment Bank	200	-
Short-term portion of ZUNK liability BGN	95	117
Short-term portion of ZUNK liability USD	516	541
Hedging of long-term portion of ZUNK liability	70	169
Short-term portion of lease liability	530	137
	3 822	2 990

The short term portion of the loan from BULBANK represents the utilized portion of an overdraft facility. The allowed amount of the overdraft is TBGN 125

First Investment Bank

During 2005 a contract was signed with First Investment Bank for an overdraft facility with maximum allowed amount of the overdraft- TBGN 200 (TEUR 102). The overdraft can be used until 25.08.2007. The interest of the overdraft is determined as the base interest rate of BNB (Bulgarian National Bank) is increased with 6.00%.

DSK Bank

A contract for overdraft- loan was signed during 2005 for a period of 12 months. The amount of the overdraft cannot exceed 90,000 EUR and can be used until 14.07.2006. The interest rate for the loan will be the 3 month EURIBOR plus 5.00%.

Sales

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Sales of finished products	40 540	41 524
Other sales	2 919	1 214
	43 459	**42 738**

Wages

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Wages	(4 600)	(3 990)
Social Security	(1 427)	(1 323)
	(6 027)	**(5 313)**

Adjustments

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Book value of sold assets (excluding finished goods)	(1 896)	(865)
Expenses for acquisition and liquidation of tangible assets by using own resources and materials	507	635
Increase of products in store, work in progress	2 351	536
Other adjustment	646	474
	1 608	**780**

Interest expense (net)

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Interest expense	(1 880)	(1 763)
Interest income	-	2
	(1 880)	**(1 761)**

Financial expense

	31.12.2005	31.12.2004
	TBGN	**TBGN**
Finance lease expenses	(233)	(65)
Interest for overdrafts and bank accounts	(180)	(264)
Investment income from repaying interest on ZUNK liability	109	991
Foreign exchange gains	790	1 823
Foreign exchange losses	(817)	(1 742)
	(331)	**743**

Income tax expenses

The relationship between the expected tax expense based on the effective tax rate of the company at 15.00% (2006: 10.00%) and the tax expense actually recognised in the income statement can be reconciled as set below. The temporary differences in 2005 and 2006 are result of unused annual paid leaves for the amounts of 28,872 EUR in 2005 and 10,348 EUR in 2006. The deferred tax income is recognized at 10% tax rate for the year 2007.

		31.12.2005		31.12.2004
		TBGN		TBGN
Result for the year before tax		210		105
Tax rate		15.00%		19.50%
Expected tax expense		(32)		(20)
	Base amount	**Tax effect**	**Base amount**	**Tax effect**
Adjustment for tax exempt income	(4 698)	705	(4 529)	882
Adjustment for non-deductible expenses	5 201	(780)	4 924	(960)
Current tax expense	713	(107)	500	(98)
Deferred tax income/(expense)		9		15
Reversal of temporary differences		(15)		(8)
Actual tax expense (net)		**(113)**		**(91)**

Earnings per share

As of 31 December 2005 the Company has not issued any securities, which could be transferred into ordinary shares. Basic earnings per share have been calculated using the net results attributable to shareholders of the Company as numerator.

The weighted average number of outstanding shares used for basic earnings per share as well as profits attributable to shareholders is as follows:

	31.12.2005	31.12.2004
Profit attributable to equity holders of the Company (BGN	96 693	13 965
Weighted average number of ordinary shares in issue	2 000 000	2 000 000
Basic earnings per share (BGN per share)	0,048	0,007

Net cash inflow from operating activities before interest and tax

	31.12.2005	31.12.2004
	TBGN	TBGN
Profit before interest and tax	2 090	1 866
Adjustments:		
Depreciation and amortization	4 350	4 442
(Profit) on disposal of fixed assets	(400)	(19)
Gain from operations with short-term financial assets	(109)	(655)
(Increase)/ decrease in inventories	(4 940)	(2 288)
(Increase)/ decrease in receivables	10 519	(6 286)
(Increase)/ decrease in payables	(3 667)	1 370

	7 843	**(1 570)**

Related party transactions

	31.12.2005	31.12.2004
	TBGN	TBGN
Related party sales		
SG Logistics Ltd	29 136	32 473
SPARKY AD Rousse	837	372
SPARKY GmbH	2 141	297
	32 114	**33 142**
Related party purchases		
SPARKY AD Rousse	298	184
SPARKY GmbH	2 410	3 100
SPARKY GROUP AD	43	43
	2 751	**3 327**

Contingent assets and contingent liabilities

At of 31 December 2006 the company has issued a promissory note to BULBANK AD for the amount of TEUR 4,400. The company has also issued a promissory note to BULBANK AD for the amount of TEUR 500. A promissory note has been issued to DSK for the amount of the credit TEUR 90 plus the annual interest.

Financial risk management

The Company's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates. The management monitors the overall risk and seeks to minimize potential adverse effects on the financial performance of the Company..

- Interest rate risk

The Company borrows at floating rates and the exposures involved are monitored regularly.

- Credit risk

The financial assets that potencialy expose the company to such risk are mainly the receivables from sales

- Foreign exchange risk

The Company has relationship with many foreign counteroarties. That means that part of the income and expences are denominated in foreign currency. Nevertheless the main part is in EUR. The Company operates in Bulgaria and is currently exposed to foreign exchange risk arising from ZUNK liability in US dollars, which has been hedged through a forward agreement (see Note 1 (vii)). The exposure involved is closely monitored to ensure effective and efficient risk management.

Post-balance sheet events

The management of the company confirms that no significant events, the non-disclosure of which would affect the true and fair presentation of the financial statements, have occurred between the balance sheet date and the date of preparation of the financial statements.

SPARKY ELTOS AD

Financial Statement

2004

T A B L E O F C O N T E N T S

SPARKY ELTOS AD

Balance Sheet At 31 December 2004

	Note	TBGN	TBGN
Assets		**2004**	**2003**
Long-term assets			
Property, plant and equipment	2	34 947	32 089
Intangible assets	3	52	167
Non-current financial assets		12	12
Deferred tax assets		15	10
		35 026	**32 278**
Current assets			
Inventories	4	13 576	11 288
Related party receivables	5	13 492	12 091
Receivables and advance payments	6	7 777	2 894
Cash	7	87	67
Current financial assets		5	-
		34 937	**26 340**
Total assets		**69 963**	**58 618**
Equity			
Share capital		2 000	2 000
Revaluation reserve	8	15 979	16 003
Other reserves		11 167	10 405
Financial result		38	781
		29 184	**29 189**
Non-current liabilities			
Long-term loans	9	**27 885**	**15 908**
Current liabilities			
Liabilities and advance payments	10	8 546	5 257
Liabilities to related parties	11	771	3 465
Short-term loans	12	3 577	4 799
		12 894	**13 521**
Total equity and liabilities		**69 963**	**58 618**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2005

СПАРКИ ЕЛТОС АД

Income Statement **For The Year Ended 31 December 2004**	**Note**	**TBGN** **2004**	**TBGN** **2003**
Sales	13	**42 738**	**42 576**
Cost of materials		(29 939)	(30 212)
External services		(2 006)	(1 884)
Depreciation expences		(4 442)	(4 043)
Wages	14	(5 313)	(4 622)
Other expences		(695)	(766)
Adjustments	15	780	686
Operating profit		**1 123**	**1 735**
Net interest expenses	16	(1 761)	(1 446)
Foreign exchange gains and losses (net)	17	81	23
Gains from operations with financial instruments		991	136
Other financial expenses		(329)	(145)
Profit before tax		**105**	**303**
Tax expences			
Income tax expense	18	(98)	(275)
Deferred tax income	18	7	(14)
Profit after tax		**14**	**14**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2005

SPARKY ELTOS AD

Cash Flow Statement
For The Year Ended 31 December 2004

	Note	TBGN 2004	TBGN 2003
Cash flows from operations	19	(1 570)	3 830
Interest paid		(1 508)	(911)
Tax paid		(155)	(31)
		(3 233)	**2 888**
Cash flows from investing activities			
Capital expenditure		(7 039)	(1 557)
Purchase of current investment		(337)	(24)
Proceeds from sale of non-current assets		52	31
		(7 324)	**(1 550)**
Cash flows from financing activities			
Loans received		13 426	950
Loans paid		(2 615)	(2 079)
Payments under finance leases		(215)	(250)
		10 596	**(1 379)**
Changes in cash flows during the period		39	(41)
Changes in reserves		(19)	(20)
Cash flows at the beginning of period		67	128
Cash flows at the end of the period		87	67

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2005

Statement of changes in shareholders' equity

For The Year Ended 31 December 2004

TBGN

	Share Capital	Subsequent revaluation reserves	Other Reserves	Profit	Total
Balance at 1 January 2003	**2 000**	**5 045**	**10 272**	**153**	**17 470**
Net profit for the year	-	-	-	14	14
Distribution of profit to reserves	-	-	153	(153)	-
Revaluation reserve of non-current assets disposed	-	11 726	-	-	11 726
Other movements in reserves	-	(768)	(20)	767	(21)
Balance at 1 January 2004	**2 000**	**16 003**	**10 405**	**781**	**29 189**
Net profit for the year	-	-	-	14	14
Distribution of profit to reserves	-	-	781	(781)	-
Revaluation reserve of non-current assets disposed	-	(24)	-	24	-
Other movements in reserves	-	-	(19)	-	(19)
Balance at 31 December 2004	**2 000**	**15 979**	**11 167**	**38**	**29 184**

Prepared by: Managing Director:

G. Kalcheva N. Kalbov

Audited by:

Date: 20.01.2005

SPARKY ELTOS AD

ACCOUNTING POLICIES

General Info

The Company is a joint-stock company. The Company's registered office, which is also its principal place of business, is Lovech 9" Kubrat"Str. SPARKY ELTOS AD is a manufacturer of power tools including drills, saws and grinders for professional and home use

The capital of the company is divided into 2,000,000 shares with nominal value of 1 Lev. The shares are divided into the following classes – 97.31% dematerialized shares and 2.69% materialized shares (cash privatization). All shares have the right of 1 vote at the General meeting of the shareholders. The Company's shares are listed on the Bulgarian stock exchange since 2000.

As of 31.12.2006 the company employs 1,122 people.

The Company has two tire type of management system consisting of Supervisory board and Managing board.

Members of the Supervisory board:

Stanislav Petkov

Peter Babourkov

Jordan Peytschev

Members of the Board of directors:

Nikolay Kalbov

Alexander Vladimirov

Peter Atanassov

Gina Kalcheva

Anatoli Ivanov

Miroslav Kalonkin

Evgeni Mihaylov

Stoyan Tzokov

Todor Todorov

Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board (IASB) and adopted by the European Union.

Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties and certain financial assets and liabilities. The measurement bases are more fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Foreign Currecy Deals

The financial statements of the company are prepared in Bulgarian leva BGN and that is the official currency the company uses in its reports

As part of the IMF sponsored reforms, a Currency Board arrangement was established in July 1997 through the Bulgarian National Bank Act. The Lev was pegged to the Deutsche mark at the rate of DEM 1 = BGL 1,000. Following the introduction of the Euro and the redenomination of the Lev, the Lev was pegged to the Euro at an exchange rate of BGN 1.95583 to EUR 1.00.

Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates, allowed by the Company. In case similar assets with similar values are exchanged, the transaction is not recognized as generating income.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering a service is recognized when the result of the transaction can be reliably measured.

Operating expenses are recognized in the income statement upon utilization of the service or at the date of their origin.

Borrowing costs

All borrowing costs are expensed as incurred. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Property, plant and equipment

An item of property, plant and equipment is initially measured at its cost, which comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses according to the alternative approach. Impairment losses are charged against revaluation reserve if no expenses have been accrued before that. If the revalued asset is sold, written off or permanently withdrawn from use, the remaining revaluation reserve is transferred to retained earnings.As at the date of preparation of the Financial Statements an analysis of the fair value of the items of Property, plant and equipment is performed, aiming the assessment of the necessity of revaluation.

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which they incurred.

Property, plant and equipment acquired under finance lease agreement, are depreciated based on their expected useful life, determined by reference to comparable assets or based on the period of the lease contract – the shorter period of time is taken into consideration.

Depreciation is calculated using the straight-line method over the useful life of the assets as follows:

Description	**Useful life (in years)**
Buildings	25
Machines and equipment	3
All vehicles excluding cars	10
Computer equipment and software	2
Cars	4
Repaired assets with prolonged useful life	50
Other	7

Intangible assets

Intangible fixed assets are measured initially at cost. If an intangible asset is acquired separately, the cost comprises its purchase price, including any import duties and non-refundable purchase taxes, and any directly attributable expenditure on preparing the asset for its intended use. If an intangible asset is acquired in a business combination, the cost of that intangible asset is based on its fair value at the date of acquisition.

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Impairment losses are recognized in the current period income statement.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Amortisation is calculated using the straight-line method with the following depreciation rates:

Description	**Useful life (in years)**
Patents and licenses	7
Software	2

Costs associated with research and development activities are expensed in the income statement as they occur.

Lease

In accordance with IAS 17 (rev 2005), the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset.

The related asset is recognized at the time of inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Assets acquired under the terms of finance lease are depreciated in accordance with IAS 16 Property, plant and equipment and/or IAS 38 Intangible assets.

All other leases are treated as operating lease agreements. Operate lease payments are recognized as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

Impairment testing the assets of the company

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation.

Financial assets

Company's financial assets include cash and financial instruments other than hedging instruments.

Financial assets are recognized at the date of the transaction.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in the Income statement when received, regardless of how the related carrying amount of financial assets is measured.

Held-to-maturity investments are financial instruments with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if it is the intention of the Company's management to hold them until maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in the income statement.

Financial assets at fair value through profit or loss include financial assets that are accounted or incurred particularly for the purpose of selling or repurchasing in the near term. Derivative financial instruments that do not qualify for hedge accounting are classified as held for trading. Subsequent to initial recognition, the financial instruments included in this category are measured at fair value, except those which have no market value at active markets and hence their fair value cannot be measured reliably. Those without quoted market prices are measured at amortized cost using the effective interest method or at cost in cases when they don't have fixed date of payment

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognized in the Income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows.

Accounting for hedging activities

The company has “ZUNK” loan payable in USD and therefore is exposed to foreign exchange risk. The company has entered into a forward rate agreement with SG Logistics to protect itself against a future exchange movement in the USD/EUR exchange rate. The balance of the hedged position as of 31 December 2006 is USD 3,234,000.

Derivatives are initially recognized at fair value on the date a derivative contract entered into and are subsequently re-measured at their fair value.

Inventories

Inventories comprise raw materials and supplies, finished goods and purchased goods. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Financing costs are not taken into consideration. At the balance sheet date, inventories are carried at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. In case inventories have already been impaired to their net realizable value and in the following period the impairment conditions are no longer present, than a new net realizable value is determined up to the initial value prior impairment. The inventory recovery amount is accounted for as decrease in inventory expenses for the period in which the recovery takes place.

The cost of inventories is assigned by using the weighted average cost, according to the benchmark treatment.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

Income tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognized in conjunction with goodwill. This applies also to temporary differences associated with shares in subsidiaries and joint ventures if the Company can control reversal of these temporary differences and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets. Deferred tax asset in relation to carried forward losses is recognized to the extent that the realization of the related tax benefits through the future taxable profits is probable.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that are charged directly to equity are charged or credited directly to equity.

Cash and cash equivalent

Cash and cash equivalents include cash at bank and in hand as well as current bank accounts, short term or highly liquid investments which can easily be turned into money and contain insignificant risk of change in value.

Equity

Share capital is determined using the nominal value shares that have been issued.

The revaluation reserve comprises gains and losses due to the revaluation of property, plant and equipment.

Retained earnings include all current and prior period results as determined in the income statement.

Other reserves result from the distribution of profit and include legal reserves and additional reserves.

Employee benefits

The Company has not elaborated and does not apply plans for employee benefits after leaving, nor other long term income and plans for income after leave or ones in the form compensations with shares of the share capital or interest.

The Company reports short-term payables relating to unutilized paid leaves, which shall be compensated in case it is expected the leaves to occur within 12 months after the end of the accounting period during which the employees have performed the work related to those leaves. The short term payables to personnel include wages, salaries and related social security payments.

Financial liabilities

The Company’s financial liabilities include bank loans and overdrafts, trade and other payables and finance leasing liabilities. They are included in balance sheet line items Current liabilities and Long-term liabilities.

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in “finance cost” in the income statement.

Bank loans are raised for support of long term funding of the Company’s operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Finance lease liabilities are measured at initial value less the capital element of lease repayments.Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Other provisions, contingent liabilities and contingent assets

Provisions, representing current obligations of the Company arising from past events, the settlement of which is expected to result in an outflow of resources, are recognized as liabilities. A provision is recognized only when the following conditions are present:

- The Company has a present obligation as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. In reaching the best estimate of the provision, the Company takes into account the risks and uncertainties that inevitably surround many events and circumstances as well as the effect of the time value of the money, when it is material.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Company does not recognize contingent assets in the financial statements as possible obligations arise, whose existence is not yet confirmed or this may result in the recognition of income that may never be realized.

Financial risk management

The Company’s activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates. The management monitors the overall risk and seeks to minimize potential adverse effects on the financial performance of the Company..

- Interest rate risk

The Company borrows at floating rates and the exposures involved are monitored regularly.

- Credit risk

The financial assets that potencialy expose the company to such risk are mainly the receivables from sales

- Foreign exchange risk

The Company has relationship with many foreign counteroarties. That means that part of the income and expences are denominated in foreign currency. Nevertheless the main part is in EUR.

Property, plant and equipment

	Cost				**Accumulated Depreciation**				**Net Book Value**	
	01.01.04	**Additions**	**Disposals**	**31.12.04**	**01.01.04**	**Additions**	**Disposals**	**31.12.04**	**31.12.04**	**31.12.03**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Land	13 011	56		13 067	-	-	-	-	13 067	13 011
Buildings	10 469	324	-	10 793	3 168	419		3 587	7 206	7 301
Plant and machinery	51 932	4 851	537	56 246	43 912	3 099	524	46 487	9 759	8 020
Vehicles	1 353	178	54	1 477	638	298	34	902	575	715
Other tangible assets	3 271	700		3 971	1 331	498		1 829	2 142	1 940
Construction in progress	1 102	1 096	-	2 198	-	-	-	-	2 198	1 102
TOTAL:	**81 138**	**7 205**	**591**	**87 752**	**49 049**	**4 314**	**558**	**52 805**	**34 947**	**32 089**

Intangible assets

	Cost				**Accumulated Depreciation**				**Net Book Value**	
	01.01.04	**Additions**	**Disposals**	**31.12.04**	**01.01.04**	**Additions**	**Disposals**	**31.12.04**	**31.12.04**	**31.12.03**
	TBGN	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**	**TBGN**
Patents	44	11	-	55	18	6	-	24	31	26
Software	748	3	-	751	622	119	-	741	10	126
Other intangible assets	25	-	-	25	10	4	-	14	11	15
TOTAL:	**817**	**14**	**-**	**831**	**650**	**129**	**-**	**779**	**52**	**167**

Inventories

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
Raw materials	8 604	6 859
Work in progress	3 834	3 425
Finished goods	930	803
Goods for sale	208	201

	13 576	**11 288**

Related party receivables

	31.12.2004	31.12.2003
	TBGN	TBGN
SG Logistics Ltd.	13 456	9 700
SPARKY AD, Rousse	36	2 391
	13 492	12 091

Receivable and prepayments

	31.12.2004	31.12.2003
	TBGN	TBGN
Receivables from suppliers and customers	7 185	2 382
VAT recoverable	354	278
Legal and awarded claims	104	105
Other current receivables	111	90
Future expences	23	39
	7 777	**2 894**

Cash and cash equivalents

	31.12.2004	31.12.2003
	TBGN	TBGN
Cash in hand	18	36
Cash at Bank in Leva	51	21
Cash in Foreign Currency	10	7
Deposits in Leva	8	3
	87	**67**

Revaluation reserve

As of 31 December 2004 the revaluation reserve is BGN 15 979 000 as follows:

	31.12.2004	31.12.2003
	TBGN	TBGN
Non-current tangible assets:		
Revaluation according to the accounting laws in force prior to 31 December 2001	4 253	4 277
Land revaluation	11 726	11 726
	15 979	**16 003**

Long-term loans

	31.12.2004	31.12.2003
	TBGN	TBGN
Bank Liabilities:		
▪ Bulbank	8 068	4 200
▪ DEG	7 829	3 185
▪ Private investors	644	805
▪ SG Logistics Ltd.	2 817	-
▪ SPARKY GmbH	1 095	1 370
Long – term portion of ZUNK liability BGN	1 026	-
Long – term portion of ZUNK liability USD	4 823	5 113
Hedging of long-term portion of ZUNK liability	1 508	1 111
Long-term portion of lease liability	75	124
	27 885	**15 908**

Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and SG Logistics Limited (2004)

On 29 June 2004 the company signed two long-term investment contracts for a total of TEUR 4,600. The loans were granted by DEG (TEUR 3,000) and SG Logistics Limited (TEUR 1,600).

The loans are repayable in 26 equal quarterly installments starting on 15 September 2005. The interest on the loans is the 3-month EURIBOR+2.8%.

The loan from DEG is secured by a next-ranking mortgage over real property, a pledge over the machines and equipment which are to be acquired under the agreement, a first demand payment guarantee by SPARKY GmbH, and a first demand payment guarantee by SG Logistics Limited. The loan from SG Logistics Limited is not secured.

Bulbank (2004)

During 2004 the loan amount extended to SPARKY ELTOS by BULBANK AD increased to TEUR 3,647. The loan is ultimately repayable on 25 April 2006. After an annual review and a positive assessment of the financial status of the company, the loan could be extended by further 18 months.

In 2004 BULBANK extended a TEUR 500 investment loan to the company. The loan is repayable in 35 equal monthly installments of TEUR 13.9, starting May 2006 and a final installment of TEUR 13.5. The loans are secured with pledge over machines and equipment and inventory owned by SPARKY ELTOS AD.\

The interest rate applicable to both loans is the 6-month EURIBOR+4.9%

On 20 December 2001, SPARKY ELTOS AD signed the following long-term loan contracts:

Lender	Principal EUR
DEG	2,280,000
Private investors	576,000
SPARKY GmbH	980,000
	3,836,000

The interest rate is the six-month EURIBOR rate plus 3.5% p.a and is payable in arrears semi-annually. The loans are repayable in 14 equal semi-annual instalments starting 15 May 2004.

ZUNK

The “ZUNK” loan represents an obligation of SPARKY ELTOS AD to the Government of Bulgaria. Initially it represented a loan extended to SPARKY ELTOS AD by the Moscow Industrial Bank, which was subsequently transformed into a payable to the Bulgarian government. In 2004 the Company negotiated a new repayment plan for the ZUNK liability. The long-term portion of the loan represents all installments due in and after 2008. The interest rate is 7.0 % per annum.The ZUNK can either be repaid in cash at its nominal value or repaid by purchasing ZUNK bonds and exchanging them with the ZUNK liabilities at the nominal value of the ZUNK bonds.

Accounts payable and accruals

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
Trade payable	6 620	2 581
Payables to employees	722	300
Payables to national social security	477	390
Данъчни задължения	470	914
Tax payables	257	1 072
	8 546	**5 257**

Related party payables

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
SPARKY GmbH	-	3 433
SPARKY AD Rousse	771	12
SPARKY Group AD	-	20
	771	**3 465**

Short-term loans

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
▪ DEG	1 224	956
▪ Bulbank	561	-
▪ SG Logistics Ltd.	313	-
▪ SPARKY GmbH	274	274
▪ Private investors	241	241
▪ BNP Pariba	-	1 226
Short-term portion of ZUNK liability BGN	117	-
Short-term portion of ZUNK liability USD	541	1 626
Hedging of short-term portion of ZUNK liability	169	353

Short-term portion of lease liability	137	123
	3 577	**4 799**

The revolving overdraft facility from BNP PARIBAS was repaid in full in January 2004.

The short term portion of the loan from BULBANK represents the utilized portion of an overdraft facility of TEUR 307 extended in 2004. The loan is repayable on 20 October 2005 and is secured with pledge over raw materials property of SPARKY ELTOS AD. The interest rate is the 6-month EURIBOR+4.9%.

Sales

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
Sales of finished products	41 524	37 004
Other sales	1 214	5 572
	42 738	**42 576**

Wages

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
Wages	(3 990)	(3 435)
Social Security	(1 323)	(1 187)
	(5 313)	**(4 622)**

Adjustments

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
Book value of sold assets (excluding finished goods)	(865)	(3 450)
Expenses for acquisition and liquidation of tangible assets by using own resources and materials	635	411
Increase of products in store, work in progress	536	887
Other adjustment	474	2 838
	780	**686**

Interest expense (net)

	31.12.2004	**31.12.2003**
	TBGN	**TBGN**
Interest expence	(1 763)	(1 446)
Interest income	2	-
	(1 761)	**(1 446)**

Foreign Exchange Gains/Losses

	31.12.2004	31.12.2003
	TBGN	TBGN
Foreign exchange gains	1 823	1 716
Foreign exchange losses	(1 742)	(1 693)
	81	**23**

Income tax expenses

		31.12.2004		31.12.2003
		TBGN		TBGN
Result for the year before tax		105		303
Tax rate		19.50%		23.50%
Expected tax expense		20		71
	Base amount	**Tax effect**	**Base amount**	**Tax effect**
Adjustment for tax exempt income	(4 529)	(882)	(4 154)	(976)
Adjustment for non-deductible expenses	4 924	960	5 021	1 180
Current tax expense	500	98	1 170	275
Deferred tax income/(expense)		(15)		24
Reversal of temporary differences		8		(10)
Actual tax expense (net)		**91**		**289**

Net cash inflow from operating activities before interest and tax

	31.12.2004	31.12.2003
	TBGN	TBGN
Profit before interest and tax	1 866	1 749
Adjustments:		
Depreciation and amortization	4 442	4 043
(Profit) on disposal of fixed assets	(19)	319
Gain from operations with short-term financial assets	(655)	-
(Increase) in inventories	(2 288)	(825)
(Increase)/ decrease in receivables	(6 286)	(2 102)
Increase in payables	1 370	646
	(1 570)	**3 830**

Earnings per share

Basic earnings per share have been calculated using the net results attributable to shareholders of the company as numerator.

The weighted average number of outstanding shares used for basic earnings per share as well as profits attributable to shareholders is as follows:

	31.12.2004	31.12.2003
Profit attributable to equity holders of the Company (BGN)	13 965	14 161
Weighted average number of ordinary shares in issue	2 000 000	2 000 000
Basic earnings per share (BGN per share)	0,007	0,007

Related party transactions

	31.12.2004	31.12.2003
	TBGN	**TBGN**
Related party sales		
SG Logistics Ltd	32 473	31 714
SPARKY AD Rousse	372	2 220
SPARKY GmbH	297	84
	33 142	**34 018**
Покупки на стоки от свързани лица		
SPARKY AD Rousse	184	2.097
SPARKY GmbH	3.100	2.742
SG Logistics Ltd	-	1 269
SPARKY GROUP AD	43	31
	3 327	**6 139**

Post-balance sheet events

The management of the company confirms that no significant events, the non-disclosure of which would affect the true and fair presentation of the financial statements, have occurred between the balance sheet date and the date of preparation of the financial statements.

HEAD OFFICE OF SPARKY ELTOS

SPARKY ELTOS AD
9, Kubrat Street
Lovetch
Bulgaria

LEAD MANAGER

UNICREDIT BULBANK
7, Sveta Nedelya Square
Sofia 1000
Bulgaria

LEGAL ADVISOR OF SPARKY ELTOS

DIMITROV, TCHOMPALOV & TODOROVA LTD
22-24, Major Parvan Toshev Street
Sofia 1408
Bulgaria

AUDITORS OF SPARKY ELTOS

GRANT THORNTON LTD
54, William Gladstone Street, floor 3
Sofia 1000
Bulgaria