

ILIRIKA BROKERAGE COMPANY, plc.



ANNUAL REPORT 2006



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I. BUSINESS REPORT

I.1. GENERAL INFORMATION ABOUT THE COMPANY

I.1.1. Presentation

Name of the Company: ILIRIKA borzno posredniška hiša d.d., Ljubljana

Address: Trdinova 3, 1000 Ljubljana

Registration (conception) date: April 15, 1993

Identification number: 5831652

Tax number: SI95168222

Share equity: SIT 500,000,000.00 (EUR 2.086.463,03)

Chairman of the Management Board: Igor Štemberger

Internet: www.ilirika.si

E-Mail: info@ilirika.si

ILIRIKA borzno posredniška hiša d. d., Ljubljana (hereinafter: ILIRIKA d. d.) was established on April 15, 1993 as a company for financial consulting and other services (Podjetje za finančno svetovanje in druge storitve d. d., Ilirska Bistrica). In accordance with the planned business activities, on February 23, 1994 the company changed to ILIRIKA borzno posredniška hiša d.d. and also modified its activities to the field of securities only. At the end of 1994, ILIRIKA d.d. also obtained a temporary and on February 25, 1995 a regular permission for executing services in connection to securities and initiated the activities of a stockbroking house. A very important milestone in the company's operations is also the move of the head office to a new location in Ljubljana. In the second half of 2006, the company moved from Breg 22 to Trdinova 3. In this way, the company guarantees access and appreciation of numerous clients with a wide network of contractual branch units all over Slovenia and also with strong presence in the media.

ILIRIKA d.d. is one of the leading brokerage companies in Slovenia, which offers quality stock broking and asset management services. Portfolio management for natural and legal entities in 2006 achieved an exceptional number of investors and very successful results. Our company offers individual approach to the clients. We are certain that long-term success can only be assured by listening to clients' wishes and providing them with the best possible solutions. We also aim to achieve the best quality of our services which are being expanded from year to year. Our services also include managerial buy-outs and executions of takeovers or in general corporate finance. Some of the renown companies from Slovenia have trusted us to implement many takeover projects in 2006.

We continue expanding our range of services for clients also by our presence on the most important foreign markets. We are also aiming to gain an important part in the foreign capital markets, especially the markets of former Yugoslavia which is currently entering the phase of ownership transformation and in this way offers many possibilities for realising capital profits. We offer our clients an overall set of services that have unified standards. In 2006, we introduced the possibility of trading on the Sarajevo and Banja Luka stock exchanges, which complete our stock broking services on the Balkan capital markets.

Trading in Croatia, Serbia and Macedonia is executed via affiliated brokerage companies. As the first Slovenian financial broker we established a stockbroking company in Croatia in December 1999. Our affiliate company, ILIRIKA Vrijednosni papiri d.o.o. as the member of the Zagreb Stock Exchange and Varazdin Stock Exchange, has permission to execute all trades which can be executed on such markets. ILIRIKA Vrijednosni papiri d.o.o. offers its clients micro- and macroeconomic information about Croatian economy which is very important for all business partners.

ILIRIKA d.d. also has an affiliate in Serbia. ILIRIKA Investments a.d. Belgrade, our affiliate company on the Serbian market continued with successful operations on the financial market of Serbia and Montenegro also in 2006. Several larger projects like takeovers and purchases of major stakes were implemented, and the company also mediated in the purchase and sale of securities.

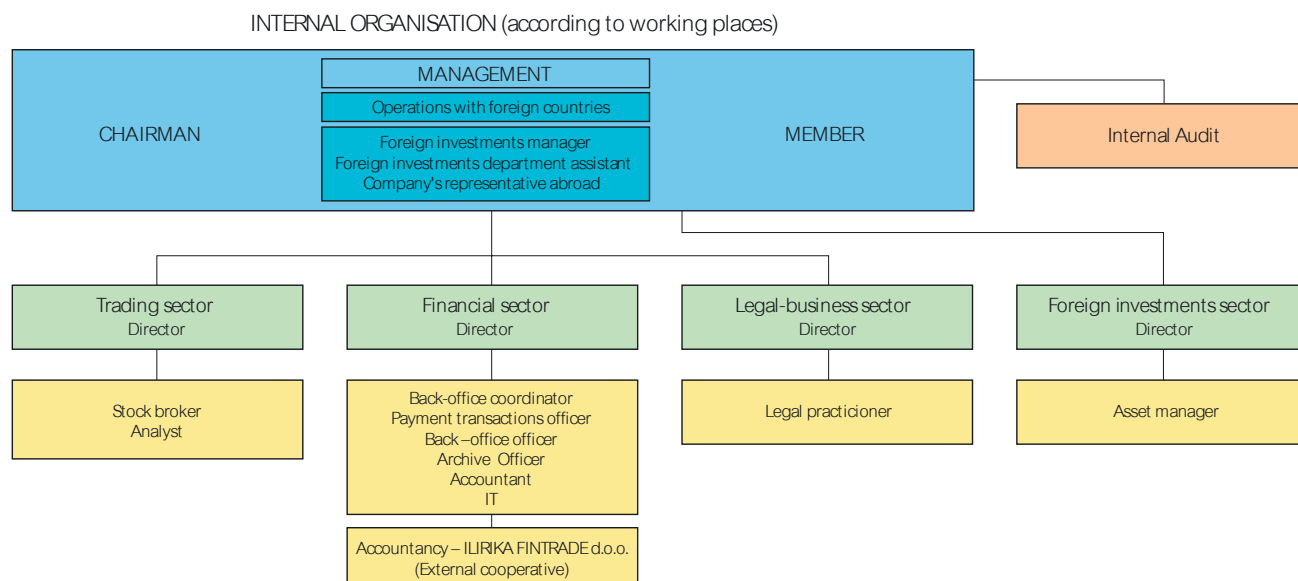
In accordance with the business policy of ILIRIKA d.d. and our own beliefs we have decided to give a part of the profit from our business success for humanitarian intentions. Parallel to the humanitarian action of collecting funds for the purchase of incubators in the Maternity Hospital in Ljubljana, we registered a charitable institution ILIRIKA Fundacija at the end of 1999. The institution's core intention is to provide scholarships and enable means for studies at births of abandoned or indirectly after the births of orphaned children, who are born in the maternity hospital of the General Hospital in Ljubljana. Since September 2000 ILIRIKA Fundacija has been helping four youngsters that strive for a better tomorrow.

I.1.2. Management

ILIRIKA d.d. is a privately owned company which has a solid ownership structure and offers a permanent improvement of business relationships with our clients. The Chairman of the Management Board is Mr Igor Štemberger who is also in charge of strategic management and finding market opportunities. The member of the Management Board, Mr Zlatko Jenko, is in charge of asset management and marketing activities. The Chairman of the Supervisory Board is Mrs Jelka Štemberger, other members are Mrs Pavlina Štemberger and Mrs Sandra Štemberger, who was appointed as the member on 5 June 2006 instead of former member Mr Matej Tomažin.

I.1.3. Organisation

In average, ILIRIKA d. d. regularly employed 24 employees in 2006. On 31 December, 2006, there were 28 regularly employed people. The majority of employees have university education, 10 of them have high school education, 14 university education, four persons have masters' degrees or passed state exam after the concluded university education. Functionally, the company's work is organised in four sectors, which have specifically determined business tasks and organisational relations.



The company's management manages the company and includes two members. It is the managing body for all other departments:

- **Trading sector:** stock broking, asset management for clients, asset management for the company's account, analytic activities for clients and for the company, investment consulting for clients;
- **Asset management sector:** asset management for clients and asset management for the company;
- **Financial sector:** back office, payment transactions, archives, accountancy and IT;
- **Legal and business sector:** legal office and human resources, implementation of services in connection to takeovers and expert support to all other sectors as well as to the company's management;
- Special organisational unit is the **foreign operations sector** which is directly subordinated to the company's management, however, it is not considered as an independent sector within the company and directly executes the management's instructions in this field of operations.

A large part of work is done in **project groups** that include various employees from different departments. **Internal audit**, which controls the company's operations, is implemented on three levels: via managers of individual sectors, the management and supervisory board. **Accountancy services** are implemented on the basis of a contract between ILIRIKA d. d. and ILIRIKA FINTRADE d. o. o., Ljubljana, which is an external book keeping company.

I.1.4. Licence for executing services in connection to securities

In accordance with Securities Market Act (OG RS 51/06 – ZTVP-1-UPB2), ILIRIKA d. d. holds the license for executing services in connection with securities on the basis of the provisions of the Securities Market Agency No. 21-1/13/AG-02 adopted on September 18, 2002, No. 21/69/AG-04-(689) adopted on October 27, 2004 and No. 21/97/AG-05-(85) adopted on February 16, 2005:

1. Accepting and mediating orders for purchases and sales of securities, implemented by other brokerage companies (mediation of orders).
2. Purchase and sale of securities upon the order and for the account of the client (stock broking).
3. Purchase and sale of securities upon the order and for the account of the brokerage (trading for own account).
4. Asset management upon the order and for the account of individual client (asset management).
5. Special services in connection to securities:
 - IPOs without mandatory buyout,
 - IPOs with mandatory buyout,
 - Services in connection to including securities in public trading.
6. Additional services in connection to securities:
 - Managing accounts of dematerialized securities,
 - Services in connection to takeovers and
 - Investment consulting.

According to standard classification of activities, the company's activities include:

- Stock broking with securities (J/67.120)
- Other financial mediation (J/65.230)
- Supplementary activities, connected to financial mediation (J/67.130).

I.1.5. Company shareholders

The only shareholder is Mr Igor Štemberger, resident at Ruska 5 in Ljubljana, who owns all 250,000 shares of the company.

I.1.6. Operating results

In comparison to 2005, in 2006 ILIRIKA d.d.'s balance sheet total (adjusted to the new accountancy standards SRS 2006) decreased by SIT 62,133,000 or by 2.7%. Short-term investments decreased, mostly investments in other shares and stakes, by SIT 261,104,000 or 22.5%. Liabilities increased by SIT 467,999,000 or by 59%.

Net sales revenues increased by SIT 180,282,000 or 41.6%, partially on the basis of the increase of net sales revenues on the local market (by SIT 130,719,000 or 33.9%). Net sales revenues of products and services on the EU market increased by SIT 43,999,000 or by 93.6%. The largest increase was noticed on off-EU markets, which rose by SIT 5,564,000 or by 683.5%. There was an increase in expenditures, namely in costs of goods, material and services – by SIT 45,522,000 or by 16.6%, labour costs decreased by SIT 19,446,000 or by 6.7%. Net profit in 2006 amounted to SIT 414,814,000 or SIT 333,576,000 – 410.6% more than in 2005.

I.1.7. Operations ratios

* values in SIT 000				2003	2004	2005	2006
Value of securities (on Dec 31)				52,696,906	74,877,219	83,059,541	99,447,493
	Brokerage			986,602	955,573	773,858	750,970
		Domestic market		983,577	952,509	719,214	676,651
			Stock market	434,478	349,136	384,342	325,560
			OTC market	215,362	342,900	79,658	18,663
			Non-organised market	333,737	260,473	255,214	332,428
		Foreign markets		3,025	3,064	54,644	74,319
	Clients' account			51,710,304	73,921,646	82,285,683	98,696,523
		Domestic market		51,710,304	73,383,434	77,929,291	91,446,454
			Stock market	18,285,607	26,137,230	23,553,368	41,415,078
			OTC market	15,368,240	18,140,008	15,067,719	11,380,988
			Non-organised market	18,056,457	29,106,196	39,308,203	38,650,388
		Foreign markets		0	538,212	4,356,392	7,250,069
Turnover with securities				40,673,260	60,748,267	62,126,856	131,626,069
	Brokerage			3,168,282	3,093,885	3,002,516	14,709,026
		Domestic market		3,168,282	3,093,885	1,986,102	3,239,333
			Stock market + OTC	1,448,944	1,606,414	1,271,809	1,130,476
			Non-organised market	1,719,338	1,487,471	714,293	2,108,857
		Foreign markets		0	0	1,016,414	11,469,693
	Clients' account			37,504,978	57,654,382	59,124,340	116,917,043
		Domestic market		37,253,004	56,364,118	53,143,229	59,857,990
			Stock market + OTC	35,517,617	54,770,163	51,720,286	59,720,102
			Non-organised market	1,735,387	1,593,955	1,422,943	137,888
		Foreign markets		251,974	1,290,264	5,981,111	57,059,053
			European Union	209,983	97,564	1,591,729	12,470,163
			USA	41,991	23,822	817,331	20,971,364
			Japan	0	5,485	507,253	4,328,139
			Croatia	0	659,404	2,338,826	6,639,319
			Serbia and Montenegro	0	503,989	545,648	1,110,574
			Macedonia	0	0	155,445	675,714
			Other	0	0	24,878	10,863,779
Number of clients, for which the brokerage concluded trades on the basis of the contract for executing stock broking services				14,510	38,630	9,405	9,845
Number of clients, for which the brokerage concluded trades on the basis of the contract for executing asset management services				30	67	180	214
Number of branches (own/contractual)				1/47	1/52	1/32	1/32
Number of shareholders/owners of stakes				1	1	1	1
Average number of regularly employed people				24	26	34	24
Balance sheet total (on Dec 31)				1,294,418	1,580,575	2,443,299	2,236,467
Off balance total (on Dec 31)				51,952,367	74,147,605	82,349,860	98,801,835
Capital (on Dec 31)				556,306	726,757	965,259	1,260,551
Amount of mandatory capital in accordance with the regulations on capital adequacy (on Dec 31)				244,718	261,565	330,980	288,266

Please find more information about operations results in the second chapter, which includes the Financial report, where all financial statements, explanations and disclosures are presented.

I.1.7.1 Type of securities

Share capital is structured from ordinary nominal shares of one class with the label IBHR. ISIN code of shares is SI 002110788 1, the issuer's code is IBH. The share capital is composed of 250,000 ordinary nominal shares of one class, which are not determined in face value. Book value of one share on 31 Dec 2005 amounted to SIT 3,861.04 (EUR 16.11), on 31 Dec 2006 it amounted to SIT 5,042.21 (EUR 21.04), on 1 Jan 2006 it amounted to SIT 3,170.20 (EUR 13.23) according to the adjustment to new SRS.

I.1.8. Exposure to risks and risk management

Risks, which ILIRIKA d. d. considers as the most important, are managed by internal control in the company and other measures that are described in continuation, namely in the financial part of the annual report under II.7.

Market risk includes the risks of balance sheet and off balance sheet position decrease due to the modification of market conditions (interest rates, stock indices), before the company manages to liquidate these positions..

Solvency risk is a type of risk when the company encounters problems when collecting financial funds, necessary to complete its financial obligations. Additional solvency funds are necessary mostly due to the lack of adjustment of maturity dates of financing sources.

Default risk includes all risks, where economic advantages of the company are decreased due to unsettled liabilities of business partners. Stock brokerage encounters this risk in three ways: when investing in debt securities, lending money to credit its exceeding assets, when it encounters the counterparty risk.

Currency risk is a risk, where the economic advantages of the company can decrease due to the modification of prices of a specific currency.

Long-term insolvency risk - this risk involves the incapability to cover the losses, caused with all other types of risks, with available capital. Long-term solvency is the final result of available capital and of all other kinds of risks.

I.2. MANAGEMENT REPORT

ILIRIKA d.d. continued with successful operations also in 2006. Business results exceeded the company's plans, which was mostly the result of various factors. ILIRIKA d.d. strived to improve its sales activities and quality of services on all business areas, successful management of the company's own assets and cost monitoring on all levels also contributed significantly to the achieved result.

Company's operations in 2006

Increased scope of turnover on the Ljubljana Stock Exchange was also followed by the increase of revenues, received from commissions that base on concluded trades with securities. Net sales revenues amounted to SIT 297mn or SIT 193mn (35%) more than in 2005. The increase was also caused due to commissions, generated in securities trading on foreign markets. With the help of affiliated companies, which are members of Belgrade, Zagreb, Varaždin and Skopje stock exchanges, we were able to introduce the Balkan markets to our local clients, and we did the same with our external foreign broker AK Jensen on world markets. In order to achieve a high standard in the field of safety, our trading is implemented via custodian accounts, managed by Nova Ljubljanska banka d.d. and Bank Austria Creditanstalt d.d. banks.

We have put also great effort in asset management, which is becoming of greater significance for our company. In 2006, revenues from asset management amounted to SIT 206mn, which is twice the amount of 2005, the stake of these revenues in total sales revenues increased from 23.3% to 33.6% in 2006. Higher level of revenues is mostly the consequence of good situation on capital markets as well as of larger amounts of assets, trusted to us by our clients. The value of managed assets increased by 58 percent, company's activities will be directed to a better recognition and quality of this service, which strives to satisfy the wishes of our clients.

In 2006, ILIRIKA d.d. was the leading brokerage in the field of takeovers in Slovenia. In the past years, we have gained great experience in Slovenian as well as in foreign markets mostly due to the cooperation with world known companies. Let us mention some of them: Altima Partners Llp, London, Great Britain, for which we managed one of the largest purchase of Slovenian shares, namely the 24.99% stake in Mercator d.d. (MELR shares) in total value of EUR 137mn.

The year started with the defence procedure against the takeover of one of the most renown Slovenian companies Iskra d.d., Ljubljana. Managerial buyout by MAOS d.o.o. in the total value of EUR 40mn was successfully concluded in March. In the same month, we successfully concluded the takeover of Lama d.d. company from Dekani, which was bought by Titus International Plc (EUR 3mn). In the second half of the year we managed consultations in the takeover of Deželna banka Slovenije d.d. by Kapitalska zadruga z.b.o. in total value of almost EUR 40mn.

In order to promote our positive image, we continued with our marketing activities. We are well aware of the fact that active presence in the media is necessary for our company, since in this way we can enhance our trademark, encourage clients to come to us and increase their loyalty. We continue our successful cooperation with Delo, Finance, Dnevnik, Primorske novice and Večer daily newspapers and fifteen radio stations. We also publish our publications in Belgrade newspapers Politika, Danas and Privredni pregled, as well as in Croatian daily newspapers Vjesnik and Novi List and in the Macedonian Dnevnik.

Affiliated companies' operations in 2006

ILIRIKA Vrijednosni papiri d.o.o. from Zagreb ranked fourth according to the turnover made on the Varaždin Stock Exchange (among 39 brokerage companies) and it ranked 13th according to the turnover made on the Zagreb Stock Exchange. Total turnover in Croatia amounted to HRK 658mn or slightly more than in 2005. The company also invested in attracting financial and strategic investors with the aim to strengthen corporate finance and consulting sector.

According to Belgrade Stock Exchange data, ILIRIKA Investments a.d. Belgrade ranked 31st in trading with bonds and 29th in trading with shares. Revenues decreased by 37.5%, the drop was mostly the consequence of the trading ban, which was issued in 2005. The largest projects included the takeover of Goša Topoli company for Livar Invest Group Ivančna Gorica and the purchase of major stake of Tapacirnica Kragujevac for NTU Slovenj Gradec.

ILIRIKA Investments a.d. Skopje ranked 11th according to the turnover made on the Macedonian Stock Exchange (among 17 brokerage companies). Total turnover of ILIRIKA Investments a.d. company in Macedonia amounted to MKD 1,049mn, there was great effort set in the marketing and improvement of ILIRIKA trademark on the Macedonian market.

I.2.1. Evaluation of business results

ILIRIKA d.d.'s operations in 2006 were significantly better than in 2005. These results were mostly the consequence of investors expanded activities on the local market, and the same notion was noticed on foreign markets, where there was mostly demand for stock broking services on the Balkan markets. There is also a trend of a reduction of one-time sales by clients, who received the shares in the privatisation process. Asset management service also affected the company's operations greatly, since the revenues, achieved in this service, present 33.2% in total stake of revenues. Quite a remarkable development was noticed in the field of corporate finance, which includes the organisation of takeover, managerial buyouts and other corporate actions.

ILIRIKA d.d. also achieved great results on the basis of own assets management. General positive trends on financial markets in Slovenia and in the Balkans, where the major part of assets was invested, initiated the increase in revenues from financing in the value of 90 percent.

I.2.2. Main factors that influenced the operations

From the macroeconomic point of view, Slovenia was mostly characterised in 2006 by the new tax legislation in the field of capital gains taxation of natural persons as well as a stable monetary and fiscal policy. Monetary and fiscal policies of the state were oriented towards completing convergent criteria for entering the euro zone, which means that the state tried to achieve low inflation, stable and comparable long-term interest rate and satisfactory deficit and public debt. These categories were significant for completing the terms for the transition to the new currency, the euro.

Changes in the field of tax legislation also had a positive effect on the development of Slovenian capital market. The tax rate for capital gains changed and remained fixed, which stimulated natural entities for trading with securities.

We can also notice increased investors' activities. Total turnover on the Ljubljana Stock Exchange, created via the stock trading system, amounted to SIT 238.8bn or 72 percent (almost SIT 100bn more) than in 2005. Greater activity of investors also influenced the share value. Slovenia stock index, which consists of 15 shares, gained 37.9 percent in 2006, the index that includes five most important shares, which was initiated in April 2006, increased by 49.6 percent by the end of the year. High increase of turnover is also the reflection of greater interest of foreign investors and better recognition of Slovenia in its transition to less risky euro zone and promotion of largest local companies abroad.

One of the factors, which influenced the company's operations, was also the adoption of the new Takeover Act and the continuation of companies' consolidation process. In 2006, there were 21 takeover offers published, however, these bids mostly included smaller or less renowned companies.

1.2.3. Factors that will influence the operations in the future and plans

The main factors that will influence the operations in the future, include expectations regarding trading with derived financial instruments, continuation of inflows in mutual funds, increase of foreign portfolio investors' demands, increase of local investors' demands for foreign securities and the necessity for services in the field of takeovers and corporate consulting. We can also expect changes in legislation, since the new Financial Instruments Market Act is under discussions for adoption.

Slovenian capital market is coming to its mature phase. When Slovenia entered the euro zone, it decreased currency risks and stabilised its macroeconomic environment, which also encourages the capital market. Greater credibility has already attracted new foreign investors, their purchases are limited to portfolio investments at the moment. Simultaneously with the development of the market we can expect that there will be more foreign investors, their investments will be more strategically oriented.

Slovenian companies are quite small for European situation. Therefore their connection is in strategic interest and most certainly, there will be mergers inside individual industrial branches. The interest of foreign investors for local companies will also increase, since numerous takeovers are necessary due to economic laws. ILIRIKA d.d. presents the link in acquisitions of local companies as well as in the process of foreign companies entering the Slovenian market.

We can also expect the inflow of local savings. Due to low interest rates deposits are considered as a weaker alternative, greater trust of savers, high yields of mutual funds and the increase of shares on the Slovenian market encourage investing in different forms on the capital market. One of the forms is also trading with derived financial instruments. In 2006, foreign investment banks did issue instruments that are linked to local shares or bulks of shares. Due to its nature regarding risks we can expect that trading with instruments will be

limited to well-informed investors; however, this sector will most certainly increase in the future.

Numerous other factors also affect the operations of ILIRIKA d.d., which originate from the company's operations. In order to remain competitive, ILIRIKA d.d. has to operate in accordance with the newest operations processes. In order to achieve this, we have initiated internet trading ILIRIKA-on.net. The website provides better information to potential investors, enables online consultation and other information that is related to ILIRIKA d.d. services. Besides online trading on the local market, ILIRIKA d.d. plans to initiate cooperation with a foreign investment bank, which will help local investors in introducing online trading with securities and other instruments, listed on various foreign markets.

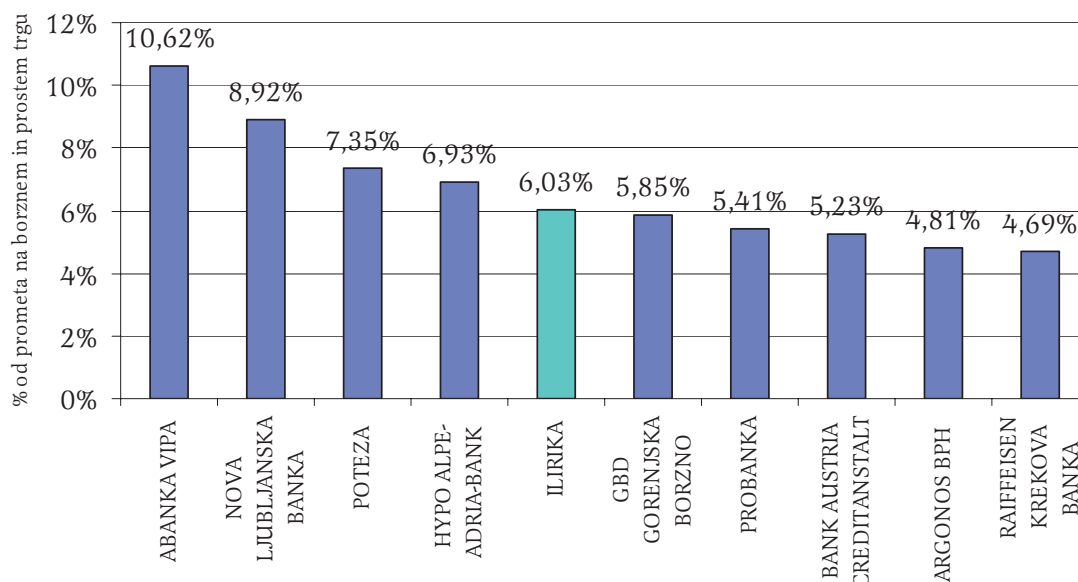
ILIRIKA d.d. also aims to develop in the area of the Balkans. Due to numerous activities in connection to privatisation and initiation of market economy, this area offers numerous opportunities. Some countries are more developed than others; however, they all have in common the fact that international investors are becoming more interested in these markets due to relatively high yields and potentials for the future. The basic intention of ILIRIKA Vrijednosni papiri d.o.o. in Croatia, ILIRIKA INVESTMENTS A.D. Belgrade in Serbia and ILIRIKA INVESTMENTS A.D. Skopje in Macedonia is to offer stock broking services on local markets, which are considered as a prospective area, where our company will strengthen its position. There are also many interests for strategic connections, since investors want to buy Croatian, Macedonian and Serbian companies and expand their activities or enter these markets.

I.3. REPORT ON OPERATIONS

I.3.1. Presentation of the company's business position

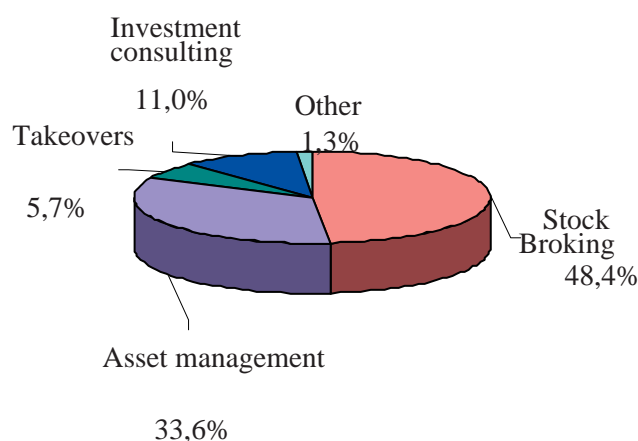
In 2006, ILIRIKA d.d. ranked fifth with 6.03 percent market share on the Ljubljana Stock Exchange, according to value, it created SIT 28.7bn turnover or 17 percent more than in 2005.

Stakes of Ljubljana Stock Exchange members according to turnover, created in 2006:



The company's revenues from operations were by SIT 117mn higher than in 2005 (23% increase). Revenues from asset management services increased by SIT 105mn or by 104 percent in comparison to 2005. There was also above average increase noticed in revenues from investment consulting, while the revenues from takeovers organisation decreased. Revenues from stock broking on local and foreign markets increased to SIT 297mn or by 20 percent in comparison to 2005.

In net sales revenues, revenues from stock broking presented 48.4 percent of total revenues, asset management presented 33.6 percent of all revenues, revenues from takeover activities amounted to 5,7 percent and revenues from investment consulting amounted to 11 percent of total revenues.



I.3.2. Presentation of the economic environment

I.3.2.1. Securities market in Slovenia

All stock indices, with the exception of bond index, reached their record values in 2006. The SBI20 gained 37.9%. In April 2006, the new "blue-chip" index, called the SBI TOP, was introduced on the stock exchange. In nine months, it gained 49.6% and as the only index on the LJSE concluded in positive numbers. PIX investment funds index gained 28.3%, BIO bond index is the only index, the value of which dropped (by 3.0%).

The major part of turnover was made with the following shares: Krka (SIT 73.1bn), Petrol (SIT 33.6bn), Mercator (SIT 15.6bn), Telekom Slovenije (SIT 8.7bn) and Gorenje (SIT 7.3bn). Among bonds, the major part of turnover was made with Slovenian Restitution Company 2nd issue bonds.

In January, Autocommerce d. d. (ACLG) shares were listed on the stock exchange. In October, the same happened with Telekom Slovenije d. d. (TLSG), which is the first of the companies, still owned by the state. In October, the stock quotation also accepted Iskra Avtoelektrika d. d. shares. In December, Luka Koper d. d. share joined the elite group of companies in the first quotation. Trading with new financial instruments was also initiated on the stock exchange. In June, the first index mutual fund MP-Eurostock.si was listed on the

stock exchange, in November, two other mutual funds, MP-Balkan and Probanka Global Investments Fund, which was formed from Zlata moneta I reformation, also followed.

I.3.2.2. Macroeconomic situation

Slovenian GDP increased by 5.2%, the anticipated increase for 2007 is 4.3%, for 2008 it amounts to 4.2%. Gross investments also increased substantially, namely by 6.7%, consumption also rose by 3.2%. Average inflation remained on the level, achieved at the end of 2005, and amounted to 2.5%. Average inflation rate that is used as the indicator for the completion of Maastricht Convergence Criteria amounted to 2.5% and was by 0.4 percentage points lower than the value of this criteria in December. Slovenia also successfully implemented the preparations for successful adoption of euro in cooperation between the Banks of Slovenia and the Government.

Croatian economy was slightly weaker in the second quarter of 2006 and it again strengthened in the third quarter, therefore GDB increased in the first three quarters by 4.7%. This was mostly affected by local demand and strong increase of expenditure and stronger dynamics of investments. In December 2006 the inflation rate increased by 2% in comparison to the same month in 2005. Official unemployment rate amounted to 17% or by 4.8 percentage points less than at the end of 2005. Despite positive trends on the labour market, Croatia remains a transition state with one of the highest unemployment rates.

The year 2006 was also very positive for **Serbia**. GDB increased by 6.7%, which is the highest increase in the past five years. In 2006, inflation rate on the annual level achieved 6.6%. Exchange rate amounted to EUR 1 = RSD 79. During 2007, Serbia will have to implement the second transition phase, which will have a significant effect on future economic development. Extensive institutional and structural reforms will have to be implemented. Due to this we can expect reforms in the public sector, which will include the improvement of financial discipline and the increase of productivity, restructure and privatisation of the largest public companies (energy sector, railways, telecommunications, and state banks).

The average **Macedonian** inflation in the first 9 months of 2006 amounted to 3.3% and reflected non-monetary factors. Prices of food, energy and excise duties for cigarettes had the most significant impact on higher increase of prices. The expected increase of industrial production amounted to 4% in 2006. During the second quarter of 2006 the increase of GDP was 2.8%, in third quarter, it amounted to 4.8%. The exchange rate for denar is fixed to euro, therefore it does not change significantly. At the end of 2006, the exchange rate was: EUR 1 = MKD 61.1741. In comparison to euro the Macedonian Denar was depreciated by 0.09%.

World economy significantly expanded in 2006. Record oil prices, which rose to USD 78 per barrel and general increase of interest rates did not have a greater impact on economic conjuncture. Economic development in the USA amounted to 3.4%, companies achieved double digit increases of profits. However, we have to point out reduced local expenditure, weakening of the real-estate sector and record increase of American debt. In comparison to Euro, US dollar value increased by 12 percent and almost achieved record levels from 2005.

I.3.3. Influences of economic environment on the company's operations

Foreign exchange rate

Parity exchange rate in the amount of SIT 239.64 for EUR 1.00 reduced risks of operating in euros. The mentioned exchange rate did not significantly change in 2006, therefore, there were no greater impacts on operations. Slightly greater risk for the company lies in operating in other world currencies, however, due to smaller scope of such trades, modifications in exchange rates did not have a significant impact on company's operations.

Competition

There were 27 financial mediators listed on the Slovenian capital market, 12 banks and 15 brokerage companies. Competition is quite harsh, which also causes more effort put in attracting the attention of new clients.

Substitutes and their services

Substitutes which replace classical investments in shares and bonds on the LJSE and other global capital markets present strong competition to brokerage activities and asset management. The most important competition lies in strong development of foreign mutual funds market, to which all extensive funds of investors flow increasingly. In 2006, there was an expansion in trading with foreign securities. The direct presence of foreign, low-cost providers of online trading limited the possibilities to local stock brokers to make earnings in sales and purchases of foreign securities.

Legislation

In 2006, almost all legal acts which refer to the implementation of stock broking activities, were either adopted or amended:

- Act Amending the Securities Market Act (ZTVP-1B) and Securities Market Act (ZTVP-1-UPB2)
- Takeovers Act (ZPre-1)
- Act Amending the Dematerialised Securities Act (ZNVP-A)
- Companies Act (ZGD-1)
- Taxation Procedure Act
- Corporation Tax Act
- Inheritance and Gift Taxation Act
- Income Tax Act

I.3.4. Operations overview

I.3.4.1. Stock broking

The main activity of ILIRIKA d.d. is work in the capital market which also includes purchases and sales of ownership and debt securities. Stock broking services include the acceptance of orders for the purchase and sale of securities and implementation of these orders on the organized and non organized market (including fees).

I.3.4.2. Asset management in Slovenia and abroad

Management of securities includes investing cash assets in securities with the aim of distributing risk in accordance with the agreed investment policy. The client is obliged to pay the brokerage company commission or part of profit for the implementation of services or if the client and the company agree solely on the distribution of profit, the brokerage company has to manage the client's portfolio with the best possible intentions.

Asset management is a service that has been gaining on importance mostly due to decreases of interest rates and numerous investment opportunities on stock markets. Asset manager actively monitors the events on the market, he is responsible for all investment decisions and tries to make the best possible profit. Therefore, clients do not have to be involved in investments, they determine the basic investment policy including risks and liquidity. The fact that the manager directly monitors market events, enables achieving better results than with trading, where the investor monitors only daily trends. Minimum starting input for clients was SIT 8,000,000.00, from 1 January 2007 this amount has increased to EUR 35,000.

I.3.4.3. Supplementary services in connection to securities

Supplementary services widen our range of services. These services include managing dematerialized securities account management and implementation of services in connection to takeovers. ILIRIKA d.d. does not hold the permit and does not ensure technical possibilities to keep securities, issued as written documents, which are not traded on the organised market.

ILIRIKA d.d. ensures its clients consultation in purchases and sales as well as issue of securities. We strive to offer our clients the right information that is necessary for successful active investing on global markets of securities.

Basic services in connection to takeovers include:

- Entry of foreign or local major strategic partners in the target company ownership structure (buy mandate)
- Entry of foreign and local major strategic partners in the target company ownership structure for existing owners (clients) (sell mandate)
- Entry of foreign and local strategic partners in the target company ownership structure for the management (client)
- Analyses of potential target companies for the client (management)

Other services include managerial buyouts, formation of treasury shares fund, consolidation of ownership and consultation in certain investment projects (state infrastructure etc.)

I.4. PRESENTATION OF COMPANY'S DEVELOPMENT PLANS

I.4.1. Market share

ILIRIKA d.d. ranks among the largest Slovene brokerage houses which are privately owned. In 2006, the company ranked 5th among all participants of the stock market, its market share amounted to 6.03%.

The company's vision for 2007 is to increase its market share in the field of securities trading on the Ljubljana Stock Exchange. Legislative operations demands that are reflected in operations costs and lower prices of services in the field of operating with securities will most probably cause consolidation in financial mediation segment and closure of brokerage companies that are not able to satisfy the needs of local clients.

I.4.2. Company's presence on the markets of former Yugoslavia and other foreign markets

The evaluation of business environment and business opportunities in the countries of the former Yugoslavia brought us to a decision to establish our own brokerage houses in Croatia, Serbia and Macedonia. We built a solid basis which has already shown many positive effects, we will most certainly develop the potentials also in the future. We also plan to expand in the future to other foreign countries of the Eastern Europe and strengthen our position in the countries where we are already present. The view in the future opens new changes and opportunities to which we will try to adjust especially in the favour of our clients.

Our offer of stock broking services in the Balkan region is completed with investment possibilities on European, American and Asian capital markets via external stock broking companies.

I.4.3. Expansion of services

ILIRIKA d.d.'s main service includes the preparation and implementation of acquisition activities in Slovenia as well as in the area of former Yugoslavia, in the future it will become an even more important player on the global markets. We will try to expand the mentioned activities also in other eastern European countries and establish our name and position in the European Union. If we regard such activities that depend on an entire range of factors, stock broking services on local and foreign capital markets will continue to hold the main position besides corporate finance services. We will actively strive to gain new clients for stock broking services and start gaining clients for asset management service that is successfully expanding and includes trades with securities abroad. We will aim at potentially active clients. Due to the consolidation of ownership we can expect the narrowing of the capital market. We expect that the stake of revenues from stock broking services will decrease, revenues from other services will increase. Therefore we put more attention to developing and marketing products with higher added value like individual asset management and consultation in the field of corporate finance. We also put more emphasis on stock broking and asset management with shares of companies that are listed on developed western European capital markets as well as on the Japanese and American markets.

I.4.4. Foreign investors

When Slovenia joined the EU, there was increasing interest of foreign investors. For ILIRIKA d.d. it is very important to find foreign investors besides Slovenian clients, for which we could provide services on the Slovenian capital market via our affiliated companies also in the area of former Yugoslavia.

I.4.5. Trademark recognition

In 2006, our company took a more integral approach to building our trademark and increased the recognition of our financial services.

Marketing and commercial messages in the daily newspapers, radio stations and local TV stations helped our company to promote the quality of our services.

Effective use of IT and active and direct marketing of services (mailings, telephone marketing, direct TV and radio marketing) completed the clients' needs by using experience, knowledge, skills and information, provided by the employees. Many events and sponsorships confirmed our image of a reliable, safe and trustworthy financial institution via various types of media.

I.4.6. Company's activities in the field of research and development

Our company constantly strives to search for new, potentially interesting markets; we are also constantly undergoing processes of developing new ways of offering services on traditional markets and implementing new products mostly connected to structuring new marketing strategies. The markets, on which we have been present only for a short time, demand more activities in the field of research. The operations system, investment possibilities and forms of service products have to be researched.

In order to follow our strategy of being present in the largest regional market possible, we implemented preliminary reviews of new markets, on which we could operate as a stock broker. Initially, we reviewed the markets of the former Yugoslavia, where we are not present yet. Simultaneously, we are monitoring markets that present great investment opportunities for our clients.

For the needs of various capital markets, ILIRIKA d.d. is constantly developing and completing individual products that are up-to-date and acceptable for our clients. We adjust to many needs and develop as well as form the necessary information support.

I.4.7. Companies in group

In foreign countries, ILIRIKA operates via its affiliated companies:

- ILIRIKA INVESTMENTS A. D., Knez Mihajlova 11-15, 11000 Belgrade, Serbia and Montenegro
- ILIRIKA Vrijednosni papiri d.o.o., Radnička cesta 39, 10000 Zagreb, Croatia
- ILIRIKA INVESTMENTS A.D. Skopje, Belasica 2, 1000 Skopje, Macedonia

I.4.8. Important events after the end of the operating year

On 1 January 2007 Slovenia entered the euro zone. Due to the reduction of currency risk and better recognition of Slovenia, which will preside the EU in 2008, we can expect increased interest of foreign investors, namely for portfolio and strategic investments.

In January 2007 ILIRIKA d.d. created EUR 26.8mn turnover on the LJSE disregarding blocks, and this presents 7.36 percent market share and second place among all participants on the market. In February 2007 ILIRIKA d.d. created EUR 20.8mn turnover on the LJSE disregarding blocks, and this presents 5.17 percent market share and the second place among all participants on the market.

At the end of February 2007, ILIRIKA d.d. concluded a contract with a new foreign external stock broker Merrill Lynch, London. On the basis of this cooperation we aim to improve the quality of our services and investment consulting services on developed and developing world markets.

In the beginning of March 2007, ILIRIKA d.d. concluded a contract with Saxo investment bank from Oslo. The intention of this cooperation is to introduce and implement online trading with securities, listed on foreign stock exchanges, and market this service under ILIRIKA's trademark.

II. FINANCIAL REPORT

II.1. GENERAL DISCLOSURES

II.1.1. Head office

ILIRIKA borzno posredniška hiša d.d., Trdinova 3, 1000 Ljubljana, Slovenia

II.1.2. Activity

Sales and purchase of securities for its own account and stock broking for foreign accounts.

II.1.3. Affiliated companies

ILIRIKA Vrijednosni papiri d.o.o., Radnička 39, Zagreb (Croatia) – co-established, 85% share
ILIRIKA INVESTMENTS a.d., Knez Mihajlova 11-15/V, Belgrade (Serbia) – co-established, 51% share

ILIRIKA FUNDACIJA, institution, Trdinova 3, Ljubljana (Slovenia) – establisher

ILIRIKA INVESTMENTS AD Skopje, Belasica 2, Skopje (Macedonia) – co-establisher, 61% share

II.1.4. Information about employees

At the end of the business year – 27 regularly employed people.

Average number of employees on the basis of working hours – 24 employees.

On December 31, 2006 the structure of employees according to the level of education was as follows: master's degree – 2-4, bachelor's degree – 12, secondary education – 10, primary education – 1.

II.1.5.

All receivables and liabilities to foreigners are calculated according to the Bank of Slovenia middle exchange rate on the ex-date of the balance sheet.

The company also calculated all business revenues which were originally stated in foreign currency according to the Bank of Slovenia middle exchange date.

Revenues and expenses are recognized as revenues and expenses of financing due to exchange differences.

Insignificant differences appear in the charts in some cases due to the rounding up to SIT 000.

II.1.6.

The company presents financial reports according to areas of operations, which include:

- Stock broking
- Clients' orders for foreign countries
- Asset management
- Special services: IPOs, execution of first sales with or without the mandatory buyout
- Other supplementary services for which the company has the permission and are presented under II.9.1.1.

II.1.7.

The business year of the company equals the calendar year – from January 1, 2006 until December 31, 2006. Insignificant differences may appear due to rounding up of items.

II.2. BALANCE SHEET

Item	In SIT 000		
	31 Dec 2006	1 Jan 2006 (SRS 2006)	31 Dec 2005 (SRS 2001)
ASSETS	2,236,467	2,298,600	2,443,299
A. FIXED ASSETS	1,027,839	840,341	1,013,556
I. INTANGIBLE LONG-TERM FIXED ASSETS	13,035	13,341	13,341
1. Long-term property rights	9,661	8,993	12,157
2. Goodwill	0	0	0
3. Advance payments for intangible long-term assets	2,186	0	0
4. Long-term deferred development costs	0	0	0
5. Long-term deferred operating costs	1,188	4,348	1,184
II. TANGIBLE FIXED ASSETS	865,080	679,259	679,970
1. Land and buildings	737,759	77,388	77,388
a) Land	0	0	0
b) Buildings	737,759	77,388	77,388
2. Production devices and machines	0	0	0

3. Other devices and equipment	126,746	22,857	22,857
4. Fixed assets in the process of acquisition	575	579,014	579,725
a) Tangible fixed assets under construction	575	574,933	574,933
b). Advance payments for acquisitions of tangible fixed assets	0	4,792	4,792
III. INVESTMENT REAL-ESTATE	0	0	0
IV. LONG-TERM FINANCIAL INVESTMENTS	118,182	125,555	320,245
1. Long-term financial investments excluding loans	118,182	125,255	320,245
a. Stakes in companies in group	44,094	57,117	296,082
b. Stakes in affiliated companies	0		0
c. Other stakes	22,496	22,496	24,163
d. Other long-term financial investments	51,592	45,642	0
2. Long-term loans	0	0	0
V. LONG-TERM OPERATING RECEIVABLES	24,482	11,082	11,082
1. Long-term oper. receivables from companies in group	0	0	0
2. Long-term operating receivables from buyers	0	0	0
3. Long-term operating receivables from others	28,482	11,082	11,082
VI. DEFERRED RECEIVABLES FOR TAX	3,060	11,404	11,384
B. SHORT-TERM ASSETS	1,202,599	1,454,173	1,403,191
I. ASSETS for sale	0	0	0
II. INVENTORIES	0	0	0
III. SHORT-TERM FINANCIAL INVESTMENTS	988,141	1,210,911	1,159,929
1. Short-term financial investments excluding loans	900,574	1,161,678	1,110,696
a. Shares and stakes in companies in group	0	0	0
b. Other shares and stakes	900,574	1,161,678	1,110,696
c. Other short-term financial investments	0	0	0
2. Short-term loans	87,567	49,233	49,233
a. Short-term loans to companies in group	2,929	9,212	9,212
b. Short-term loans to others	84,638	40,021	40,021
c. Short-term unpaid called-up share capital	0	0	0
2. SHORT-TERM OPERATING RECEIVABLES	201,795	242,649	242,649
1. Short-term oper. receivables from companies in group	1,525	1,105	1,105
2. Short-term operating receivables from buyers	81,723	145,330	145,330
3. Short-term operating receivables from others	118,547	96,214	96,214
V. CASH	12,663	613	613
C. DEFERRED COSTS AND ACCRUED REVENUES	6,029	4,086	4,086
D. OFF-BALANCE REGISTER	98,801,835	82,349,860	82,349,860
LIABILITIES	2,236,467	2,298,600	2,443,299
A. CAPITAL	1,260,551	792,552	965,259
I. CALLED-IN CAPITAL	500,000	500,000	500,000
II. CAPITAL RESERVES	0	0	0
III. RESERVES FROM PROFIT	35,160	14,420	14,420
1. Lawful reserves	35,160	14,420	14,420
2. Reserves for treasury stakes	0	0	0
3. Statutory reserves	0	0	0
4. Other reserves from profit	0	0	0
IV. REVALUATION SURPLUS	106,753	52,862	253,799
V. RETAINED NET PROFIT OR LOSS	224,564	148,094	119,864
VI. NET PROFIT OR LOSS FROM OPERATING YEAR	394,074	77,176	77,176

B. PROVISIONS AND ACCRUED COSTS AND DEFERRED REVENUES	0	0	0
C. LONG-TERM LIABILITIES	59,287	104,258	75,539
I. Long-term financial liabilities	20,000	75,539	75,539
1. Long-term financial liabilities to companies in group	0	0	0
2. Long-term financial liabilities to banks	20,000	28,000	28,000
3. Other long-term financial liabilities	0	47,539	47,539
II: Long-term operating liabilities	7,399	11,099	11,099
4. Other long-term operating liabilities	7,399	11,099	11,099
III. Deferred liabilities for tax	31,888	17,620	17,620
D. SHORT-TERM LIABILITIES	910,379	1,388,230	1,388,230
I. Liabilities, included in the disposal assets group	0	0	0
II. Short-term financial liabilities	592,235	1,214,452	1,214,452
1. Short-term financial liabilities to companies in group	0	0	0
2. Short-term financial liabilities to banks	579,385	893,770	893,770
4. Other short-term financial liabilities	12,850	320,682	320,682
III. Short-term operating liabilities	318,144	173,778	173,778
1. Short-term operating liabilities to companies in group	0	0	0
2. Short-term operating liabilities to suppliers	125,774	140,069	140,069
4. Short-term operating liabilities on the basis of advance payments	0	0	0
5. Other short-term operating liabilities	192,370	33,709	33,709
D. ACCRUED COSTS AND DEFERRED REVENUES	6,250	13,560	13,560
E. OFF-BALANCE REGISTER OF LIABILITIES	98,801,835	82,349,860	82,349,860

II.2.1. Settlement operations (operating with clients)

In SIT 000

Item	2006	2005
ASSETS	0	35.900
I. SHORT-TERM RECEIVABLES	0	35.900
1. Short-term receivables - to account 627	0	0
2. Short-term receivables - to account 748	0	0
3. Net short-term receivables from clearing company	0	35.900
II. CASH ASSETS on invoice 531	0	0
CAPITAL LIABILITIES	0	35.900
I. SHORT-TERM LIABILITIES	0	35.900
1. Short-term liabilities - to account 627	0	6.556
2. Short-term liabilities - to stock broking account 748	0	29.344
3. Net short-term liabilities to clearing company	0	0

II.2.2. Stock broking operations (operating with clients)

in SIT 000

Item	2006	2005
ASSETS	1,246,104	976,998
I. SHORT-TERM RECEIVABLES	44,900	267,746
1. Short-term receivables from clients	44,436	223,949

- Short-term receivables to associated clients	4	25,056
- Short-term receivables from other clients	44,432	198,893
2. Short-term receivables to account 531	464	43,797
3. Short-term receivables from other persons	0	0
II. CASH ASSETS	1,201,204	709,252
1. Cash in cash box – investment consultation	0	0
2. Cash assets on stock broking account	220,671	239,606
3. Cash assets on special foreign currency account of excluded assets	980,533	469,646
LIABILITIES	1,246,104	976,998
I. SHORT-TERM LIABILITIES	1,246,104	976,998
1. Short-term liabilities	1,126,148	865,126
- Short-term liabilities to associated clients	3,001	3,395
- Short-term liabilities to other clients	1,123,147	861,731
2. Short-term liabilities to account 531	0	0
3. Short-term liabilities to regular account 627	104,228	59,066
4. Short-term liabilities to other local persons	0	3,643
5. Short-term liabilities to other foreign persons	15,728	49,163

II.3. PROFIT AND LOSS ACCOUNT (1st VERSION)

in SIT 000

Item	2006	2005
1. NET SALES REVENUES	613,382	433,100
1. On local market from cooperation with companies in group	0	0
2. On local market to other affiliated companies	0	0
3. On local market from cooperation with third parties	515,991	385,272
4. On foreign market from cooperation with companies in group	0	0
5. On foreign market to other affiliated companies	0	0
6. On foreign market from cooperation with third parties	97,391	47,828
3. CAPITALISED OWN PRODUCTS AND SERVICES	0	0
4. OTHER OPERATING REVENUES	14,541	77,689
5. COSTS OF GOODS, MATERIAL AND SERVICES	319,777	274,255
a) Purchase value of sold goods and material	21,987	22,972
b) Costs of services	297,790	251,283
6. LABOUR COSTS	271,961	291,407
a) Salaries	203,959	213,815
b) Social security excluding retirement	33,299	35,031
- costs of retirement insurance	18,050	8,536
- costs of other social security insurances	15,249	24,495
c) Other labour costs	34,703	42,561
7. VALUE WRITE-OFFS	55,097	25,036
a. Amortisation	47,329	22,359
b. Depreciation and revaluation operating expenses in intan. and tan. fixed assets.	2,535	0
c. Revaluation operating expenses in current assets	5,233	2,677
8. OTHER OPERATING EXPENSES	4,026	6,697
9. FINANCIAL REVENUES FROM STAKES	630,837	302,768

a) Financial revenues from stakes in group companies excluding affiliated companies	83,895	0
b) Financial revenues from stakes in affiliated companies	0	0
c) Other financial revenues from stakes (including rev. financ. revenues)	545,976	301,150
d) Financial revenues from other investments	966	1,618
10. FINANCIAL REVENUES FROM LOANS	3,719	5,470
a) Financial revenues from loans to companies in group	385	495
b) Financial revenues from loans to others	3,334	4,975
11. FINANCIAL REVENUES FROM OPERATING RECEIVABLES	1,396	261
a) Fin. rev. from operating receivables from companies in group	0	0
b) Financial revenues from operating receivables from others	1,396	261
12. FINANCIAL EXPENSES FOR LONG- AND SHORT-TERM FIN. INVESTMENTS' WRITE-OFFS	20,934	66,945
13. FINANCIAL EXPENSES FOR INTERESTS AND FROM OTHER LIABILITIES	73,287	88,653
a) Fin. exp. from loans, received from companies in group	0	3,457
b) Fin. exp. from loans, received from banks	47,313	37,975
c) Other fin. expenses from issued bonds	0	0
d) Fin. Exp. from other financial liabilities	25,974	47,221
14. FINANCIAL EXPENSES FROM OPERATING LIABILITIES	3,312	155
a) Fin. Expenses from operating liabilities to companies in group	0	0
b) Fin. Expenses from liabilities to suppliers and draft liabilities	10	39
c) Fin. Expenses from other operating liabilities	3,302	116
15. OTHER REVENUES	43,373	14,330
16. OTHER EXPENSES	361	8,047
17. TAX ON PROFIT	135,335	2,569
18. DEFERRED TAXES	-8,344	11,384
19. NET PROFIT OR LOSS FROM FINANCIAL PERIOD	414,814	81,238
20. RETAINED PROFIT/LOSS	224,564	119,864
21. REDUCTION OF CAPITAL RESERVES	0	0
22. REDUCTION OF RESERVES FROM PROFIT	0	0
23. INCREASE OF RESERVES FROM PROFIT	20,741	4,062
24. BALANCE SHEET PROFIT	618,637	197,040

II.3.1. Annex to profit or loss account (operations including clients)

In SIT 000

Item	2006	2005
BROKERAGE COMPANY REVENUES FROM LICENSED OPERATIONS (1 and 2)	613,075	430,060
1. Stock broking	297,175	247,093
2. Asset management	205,925	100,933
3. Special services in connection to securities	0	0
- IPO's without mandatory buyout	0	0
- IPO's with mandatory buyout	0	0
4. Supplementary services in connection to securities	109,975	82,034
- Investment consultation	67,493	22,024
- Dematerialised securities account management	7,509	0

- Securities safe-keeping	0	0
- Services in connection to takeovers	34,973	60,010
BROKERAGE COMPANY EXPENSES FROM LICENSED TRADES (1 and 2)	93,459	84,745
1. Central Securities Clearing Corporation	36,645	33,767
2. Stock exchange	38,765	44,334
3. Financial instruments exchange	0	0
4. Legal entity, providing payment transactions	18,049	6,644

II.4. CASH FLOW STATEMENT (2nd VERSION)

		In SIT 000	
	Item	2006	2005
A.	Financial flows in operating activities		
a)	Profit and loss account items	-76,262	-54,733
	Operating Inflows and financial inflows from operating receivables	672,615	525,119
	Operating expenses excluding amortisation and financial expenses from operating receivables	-605,198	-577,283
	Tax on profit and other taxes, not included in operating expenses	143,679	2,569
b)	Modifications of net current assets under operating items of the balance sheet	68,414	-230,345
	Opening less closing operating receivables	21,822	-157,204
	Opening less closing deferred expenses and accrued revenues	-1,943	49,576
	Opening less closing deferred receivables for taxes	8,344	11,384
	Opening less closing assets for sale	0	0
	Opening less closing inventories	0	0
	Closing less opening operating debts	47,500	-68,822
	Closing less opening accrued expenses and deferred revenues	-7,310	-65,279
	Closing less opening deferred liabilities for taxes	1	0
c)	Surplus of inflows in operations and surplus of operating outflows	-7,848	-285,078
B.	Financial flows in financial activities		
a)	Inflows from investment activities	3.247.138	1.589.439
	Inflows from received interests and shares in profits of others	10.281	0
	Inflows from disposal of intangible assets	0	0
	Inflows from disposal of tangible assets	77	0
	Inflows from disposal of investment real-estate	0	0
	Inflows from disposal of long-term financial investments	96.918	0
	Inflows from disposal of short-term financial investments	3.139.862	1.589.439
b)	Outflows from investment activities	-2.498.879	-2.007.804
	Outflows for acquisition of intangible assets	-5.654	-10.166
	Outflows for acquisition of tangible assets	-138.769	-304.638
	Outflows for acquisition of investment real-estate	0	0
	Outflows or acquisition of long-term financial investments	0	0
	Outflows for acquisition of short-term financial investments	-2.354.457	-1.693.000
c)	Surplus of investment inflows or investment outflows	748.258	-418.365
C.	Financial flows in financing activities		
a)	Inflows from financing activities	2.427.961	2.414.507
	Inflows from paid-in capital	0	0
	Inflows from increase of long-term financial liabilities	0	27.522
	Inflows from increase of short-term financial liabilities	2.427.961	2.386.985
b)	Outflows from financing activities	-3.156.321	-1.731.453
	Outflows for interest, referring to financing	-50.604	-45.052
	Outflows for capital return payments	0	-738

	Outflows for pay-offs of long-term financial liabilities	-9.103	0
	Outflows for pay-offs of short-term financial liabilities	-3.096.614	-1.685.663
	Outflows for payments of dividends and other stakes in profit	0	0
c)	Surplus of inflows from financing or surplus of outflows in financing	-728.360	683.054
D.	Final balance of cash and equivalents	12.663	613
	Cash-flow in period	12.050	-20.389
	Opening balance of cash and equivalents	613	21.002

II.5. CAPITAL FLOW STATEMENT

II.5.1 Capital flow statement from January 1, 2006 until December 31, 2006

In SIT 000

	Share capital	Legal reserves	Retained net profit	PROFIT	LOSS	Revaluation capital adjustments	TOTAL CAPITAL
	I/1	II I/1	IV	V/1	V/2	VI	VII
A. BALANCE AS ON 31 DEC 2005	500,000	14,420	119,864	77,176	0	253,799	965,259
ADJUSTMENTS ACCORDING TO SRS 2006	0	0	28,230	0	0	-200,937	-172,707
B. OPENING BALANCE 1 JAN 2006	500,000	14,420	148,094	77,176	0	52,862	792,552
C. MOVEMENTS TO CAPITAL	0	0	0	414,814	0	118,805	533,619
a) Registration of called-up share capital	0	0	0	0	0	0	0
b) Registration of net profit or loss from 2006	0	0	0	414,814	0	0	414,814
f) Registration of special revaluation capital adjustments	0	0	0	0	0	118,805	118,805
D. MOVEMENTS IN CAPITAL	0	20,740	77,176	-97,916	0	0	0
a) Distribution of net profit according to management and supervisory board decision	0	0	0	0	0	0	0
b) Redistribution of the remaining profit from 2005	0	0	77,176	-77,176	0	0	0
c) Distribution of revalued capital	0	0	0	0	0	0	0
d) Distribution of net profit from 2006	0	20,740	0	-20,740	0	0	0
E. MOVEMENTS FROM CAPITAL	0	0	706	0	0	64,914	65,620
a) Pay-off of dividends	0	0	0	0	0	0	0
b) Pay-off of rewards to management board members for 2005	0	0	0	0	0	0	0
c) Pay-off of rewards to supervisory board members for 2005	0	0	0	0	0	0	0
d) Other movements from capital	0	0	706	0	0	64,914	65,620
D. CLOSING BALANCE IN PERIOD	500,000	35,160	224,564	394,074	0	106,753	1,260,551

II.5.2 Capital flow statement from January 1, 2005 until December 31, 2005

In SIT 000

	Share capital	Legal reserves	Retained net profit	Net profit from oper. year	Revaluation n capital adjustment	TOTAL CAPITAL
A. OPENING BALANCE IN PERIOD	500,000	10,358	1,846	118,018	96,535	726,757
B. MOVEMENTS TO CAPITAL	0	0	0	81,238	157,264	240,502
d) Registration of net profit or loss from 2005				81,238		83,238
f) Registration of special revaluation capital adjustments					157,264	157,264
C. MOVEMENTS IN CAPITAL	0	4,062	0	-4,062	0	0
a) Distribution of net profit according to management and supervisory board decision		4,062		-4,062		0
b) Redistribution of the remaining profit from 2004			118,018	-118,018		
D. MOVEMENTS FROM CAPITAL	0	0	0	0	0	0
E. CLOSING BALANCE IN PERIOD	500,000	14,420	119,864	77,176	253,799	965,259

II.5.3. Accumulated profit account

Item	In SIT 000	
	2006	2005
A. NET PROFIT FROM OPERATING YEAR	414.814	80.532
B. NET LOSS FROM OPERATING YEAR	0	0
C. RETAINED NET PROFIT	224.564	119.864
Č. RETAINED NET LOSS	0	0
D. DECREASE OF CAPITAL RESERVES	0	0
E. DECREASE OF RESERVES FROM PROFIT	0	0
1. – decrease of legal reserves	0	0
2. – decrease of reserves for treasury stakes	0	0
3. – decrease of statutory reserves	0	0
4. – decrease of other reserves from profit	0	0
F. INCREASE OF RESERVES FROM PROFIT	20.741	4.062
1. – increase of legal reserves	20.741	4.062
2. – increase of reserves for treasury stakes	0	0
3. – increase of statutory reserves	0	0
4. – increase of other reserves from profit	0	0
G. ACCUMULATED PROFIT	618.637	196.334
H. ACCUMULATED LOSS	0	0

II.6. BASIS FOR FINANCIAL STATEMENTS

Financial reports included in the present annual report are calculated on the basis of Slovenian Accountancy Standards 2006, issued by the Slovenian Auditing Institute. These standards consider two basic accountancy principles: consideration of emerging business events and time illimitability of operations.

Quality characteristics of financial reports and entire accountancy are mostly based on comprehensibility, applicability, reliance and comparison.

The basis for the reports includes also the regulations and provisions of the Securities Market Agency.

Financial reports are presented in Slovenian tolar, rounded to thousands.

II.6.1. Modifications of accountancy criteria and corrections of faults

Business reports for the financial year 2006 use the newly adopted accountancy standards (SRS 2006), therefore the company has made appropriate adjustments and new calculations of items in financial statements in accordance with Item 15 of the Introduction of SRS 2006. The annual report is structured according to new SRS 2006:

- Balance sheet presents comparable data for 2005 in two columns:
 - i. According to SRS 2001 and not calculated according to SRS 2006, rationally structured under assets and liabilities in the valid balance sheet scheme according to SRS 2006.
 - ii. According to amounts, calculated for 1 January, 2006 in accordance with Item 15 of the Introduction to SRS 2006.
- Profit and loss account presents comparable information for 2005 according to SRS 2001 and are not calculated according to SRS 2006, however, the

information is presented under items including expenses, outflows, revenues and results in valid profit and loss account schemes according to SRS 2006;

- Comparable information for 2005 in the cash flow statement is presented according to SRS 2001 and is not calculated according to SRS 2006, however, the information is presented under items of inflows and outflows in the valid cash statement schemes according to SRS 2006;
- Opening balance (1 January, 2006) of amounts in the capital flow statement are presented in accordance with Item 15 of the Introduction to SRS 2006.

The main adjustments and calculations include:

- New calculation of financial investments for trading at fair value in the profit and loss account.
- New calculation of financial investments for the sale of available financial investments at fair value in surpluses from revaluation.
- New calculation of financial investments at purchase value and book value on 1 January, 2002, considering all weakening and modifications due to acquisitions and disposals.

The effects of the transition to the new standards are described under explanations of accountancy items.

II.7. EXPOSURE TO RISKS AND RISK MANAGEMENT

Risks, which ILIRIKA d. d. considers as the most important, are managed by internal control in the company and other measures that are described in continuation. Regular monitoring of ratios, exposure and liquidity ratios is implemented with the following decisions of the Securities Market Agency: Decision on capital adequacy of the stock broking company, Decision on the manner of calculating liquidity ratios and the lowest liquidity balance that a stock broking company must ensure and Decision on the calculation of exposure of the stock broking company (Uradni list RS no. 6/2000 and 117/2002).

II.7.1. Market risk (risk of price modification, interest risk)

With regards to general securities price modifications risks the accountancy considers applicable factors for securities, receivables and liabilities in connection to trading for ILIRIKA d.d.'s own account when calculating capital adequacy. Trading sector regularly informs the management on the trends of prices of securities that are included in ILIRIKA d.d.'s portfolio and also of other securities. The management makes the main decisions for the purchase and sale of securities on the basis of technical and basic analysis of a certain security (analyses of trading, issuer, ownership, macroeconomic position, investment risks estimation) that is prepared by the company's analyst department. ILIRIKA d.d.'s investments in debt securities present a low share of all investments in securities, therefore the interest risk does not present an important risk for the company.

II.7.2. Solvency risk

ILIRIKA d.d. manages sources and investments in such manner that it is capable of completing all mature liabilities at every time. Therefore it forms and executes regular solvency management policy that includes:

- Planning expected and possible cash outflows and adequate cash inflow for financing the outflows.
- Regularly monitoring liquidity.
- Taking applicable measures to prevent or eliminate the insolvency reasons.

II.7.3. Default risk

ILIRIKA d.d.'s investments in debt securities present a low stake of all investments in securities and as such they do not present a significant default risk for the company. The company insures itself from default risk, which originates from lent funds, by verifying the debtor's financial position and with applicable contractual provisions for insuring the provided loans. The company also insures itself from default risk in connection to providing loans for clients' purchases by implementing the right of registering the pledge right on securities that are managed on the client's trading account or with the right that according to a preliminary written call the company pays its receivables from clients from the funds, held on the client's account. Default risk does almost not exist in purchases and sales of securities on organised markets. When concluding important trades for its own account, which are made outside the organised market, the company tries to diminish the default risk via preliminary check-up of the client's ownership of securities in the issuer's shareholder register.

II.7.5. Currency risk

ILIRIKA d.d. faces currency risks in implementing its activities on foreign markets. These include mostly purchases and sales of securities. From a long-term point of view, ILIRIKA d.d. minimises this risk by dispersing investments on different markets. Considering the scope of investments in foreign securities and local securities, ILIRIKA d.d. estimates that the exposure to currency risk is moderate.

II.7.6. Long-term insolvency risk

This risk involves the incapability to cover the losses, caused with all other types of risks, with available capital. Long-term solvency is the final result of available capital and of all other kinds of risks: default, interest, liquidity and market risk. The capital adequacy principle determines the main directions of risk management.

II.8. DISCLOSURE OF ITEMS IN BALANCE SHEET

II.8.1. Intangible long-term fixed assets flow chart

In SIT 000

A.	ACQUISITION VALUE	TOTAL	Material rights	Other intangible long-term assets	Long-term deferred operating expenses
	Balance on Jan 1, 2006	68.255	44.899	22.132	1.224
	Acquisitions	5.621	5.621	0	0
	Distributions from tangible fixed assets	0	0	0	0
	Disposals and eliminations	18.590	0	18.590	0
	Balance on Dec 31, 2006	55.286	50.520	3.542	1.224
B. VALUE ADJUSTMENTS					
	Balance on Jan 1, 2006	54.914	35.906	18.968	40
	Amortisation	5.843	4.985	612	246
	Distributions from tangible fixed assets	-33	-33	0	0
	Disposals and eliminations	16.287	0	16.287	0
	Balance on Dec 31, 2005	44.437	40.858	3.293	286
C. DEPRECIATED VALUE					
	BALANCE ON JAN 1, 2006	13.341	8.993	3.164	1.184
	BALANCE ON DEC 31, 2006	10.849	9.662	249	938

Intangible fixed assets include investments in computer hardware, presented in material rights, and investments in foreign fixed assets which are leased and are included in the item including other intangible fixed assets and administrative costs of establishing a company in Macedonia which are included in the item under long-term deferred operations costs.

Intangible fixed assets are valued at their acquisition value at the moment of initial receipt. Purchases of intangible assets in 2006 refer to the upgrade of BWIN software, internet application and the purchase of programme for registering the presence of employees.

II.8.2. Tangible fixed assets flow chart

Tangible fixed assets include buildings, stationery and small inventories as well as current investments. Tangible fixed asset is valued at its acquisition value at the moment of initial receipt. Tangible fixed asset is structured from its purchase price, export and unrequited purchase taxes and costs that can be ascribed directly to the asset's operations for intended use.

In SIT 000

A.	ACQUISITION VALUE	TOTAL	BUILDINGS	EQUIPMENT	Small inventories	Current investments
	Balance on Jan 1, 2006	797.925	87.207	121.607	14.178	574.933
	Acquisitions	231.581	104.045	125.402	1.559	575
	Redistributions	0	574.933	0	0	-574.933
	Eliminations, disposals	38.445	0	28.419	10.026	0
	Balance on Dec 31, 2006	991.061	766.185	218.590	5.711	575
B.	VALUE ADJUSTMENT					
	Balance on Jan 1, 2006	122.747	9.819	98.883	14.045	0
	Amortisation	41.486	18.607	22.807	72	0
	Redistributions	-39	0	-39	0	0
	Eliminations, disposals	38.213	0	28.197	10.016	0
	Balance on Dec 31, 2006	125.981	28.426	93.454	4.101	0
C.	DEPRECIATED VALUE					
	BALANCE ON JAN 1, 2006	675.178	77.388	22.724	133	574.933
	BALANCE ON DEC 31, 2006	865.080	737.759	125.136	1.610	575

The purchase of equipment in 2006 refers to the purchase of office equipment, archives equipment, software and artwork.

II.8.3. Financial investments

In accordance with SRS 2006, the company divided long-term and short-term financial investments into 4 groups:

- 1st group: financial investments according to fair value in the profit and loss account
- 2nd group: financial investments owned until due
- 3rd group: loans and receivables
- 4th group: financial investments available for sale

The company includes long-term financial investments in stakes or shares of companies in group and strategic investments under **financial investments, available for sale**. Strategic investments are investments, which guarantee the payments of loans. Bonds of the Republic of Slovenia are included under **financial investments owned until due**. Other financial investments are distributed among **financial assets, measured at fair value** in the profit and loss account. The date of acquisition refers to the trading date.

Evaluation

When acquired, the financial investment is evaluated **at fair value**. If this is a financial asset that is not included under financial assets, estimated at fair value in the profit and loss account, the initial value must be increased by the costs of trade, which originate directly from the purchase or issue of financial asset.

Valuation of investment depends on the fact, into which group an individual financial investment is included:

- Financial investments, included in the 1st and 4th groups are valued at fair value. Fair value is marketable value (stock index, published daily value of mutual fund unit, bond index). Change of fair value for financial investments in the 1st group is recognized in the profit and loss account as financial revenue or expense. Change of fair value for financial investments in the 4th group is presented in capital as the surplus from revaluation. Financial revenue as the consequence of elimination of surplus for financial investments in the 4th group is presented at the sale of financial investment or when this investment is presented.

Revaluation of financial investments is implemented on the last day of every year.

- Financial investments, distributed in the 2nd and 3rd groups, are valued at pay-off value. Pay-off value of an asset is the amount, at which the financial asset is estimated at initial presentation, reduced (according to effective interest method) by the accumulated payment of the difference between the initial and due amount and reduced (directly or according to calculation on the value adjustment account) due to weakness and inability to be cashed in.

- Financial investments in non-marketable securities, which are distributed in the 4th group, are valued at purchase value.

- Financial investments in capital of affiliated are valued at purchase value and are in principle long-term.

Impairments

On the date of the report the company estimates whether impartial evidence exists on possible impairments of financial investment. Loss, which is the consequence of revaluation due to impairment, and cannot be settled with the surplus from revaluation, is presented as financial expense in the profit and loss account.

The loss due to impairment in financial investments, which are owned until due, and loans as well as receivables, which are presented according to pay-off value, is terminated, if the increase of the alternative value of asset can be impartially connected to the event, which emerged after the presentation of impairment. The loss is terminated via the profit and loss account. The loss amount is calculated as the difference between the book value of the asset and current value of expected future cash flows, discounted at current market yield for similar financial assets.

Losses due to impairments, which are presented as the financial investment in capital instrument, distributed as disposable for sale, cannot be invalidated via the profit and loss account. If the fair value of debt instrument, distributed as disposable for sale, is increased and this increase can be impartially connected to an event, which emerged after the presentation of the loss due to impairments in the profit in loss account, it is necessary to invalidate via the profit and loss account as the financial inflow. Loss amount can be estimated as the difference between purchase value and fair value, decreased by the loss due to impairment of such financial asset, which was presented in the profit and loss account.

Financial investments, estimated at fair value, are revaluated on the final day of the year.

II.8.3.1. Long-term financial investments in affiliated companies

Investments in affiliated companies include:

Investment	Stake in capital	In SIT 000		
		31 Dec, 2005	1 Jan, 2006	Balance on Dec 31, 2006
Ilirika Investments a.d., Belgrade	51 %	201.212	26.960	13.936
Ilirika Vrijednosni papiri d.o.o., Zagreb	99,87 % 85 % operating stake	85.909	19.169	19.169
Ilirika Investments a.d., Skopje	61 %	8.961	10.988	10.989
TOTAL long-term financial investments		296.082	57.117	44.094

Long-term financial investments in capital of the above mentioned companies are included in consolidated financial reports.

When adjusting the reports to SRS 2006, the company decreased the value of long-term financial investments in affiliated companies as follows:

Change	In SIT 000		
	ILIRIKA Investments d.o.o., Belgrade	ILIRIKA Vrijednosni papiri d.o.o., Zagreb	ILIRIKA Investments a.d., Skopje
Closing balance 31 Dec, 2005	201.212	85.909	8.961
Elimination of profit, ascribed in the past, according to capital method	(196.429)	(57.370)	-
Elimination of value adjustments for losses of 2005	-	-	2.000
Eliminations of currency differences and addition of purchase costs	22.177	(9.370)	28
Opening balance 1 Jan, 2006	26.960	19.169	10.988

Financial investments in shares or stakes of companies in group are valued at purchase value. In 2006, all companies reported profit.

	In SIT 000			
	Stake in capital	Currency	Company's capital	Profit or loss
Ilirika Investments a.d., Belgrade	51 %	RSD	89.318	13.724
Ilirika Vrijednosni papiri d.o.o., Zagreb	99,87 % 85 % business stake	HRK	5.221	1.749
Ilirika Investments a.d., Skopje	61 %	MKD	6.496	2.776

II.8.3.2. Other long-term investments in shares and stakes

	In SIT 000			
	Opening balance 31 Dec, 2005	1 Jan, 2006 according to SRS 2006	Increases of decreases	Closing balance 31 Dec, 2006
Euroinvest a.d. Podgorica	3.062	2.830		2.830
Blago d.o.o., Sarajevo	11.287	9.851		9.852
Ljubljanska borza d.d.	9.814	9.814		9.814
Bonds of other issuers	-	19.118	(606)	18.513
Investment coupons of other mutual funds	-	26.524	6.555	33.079
TOTAL	24.163	68.138	5.950	74.088

In order to harmonize the report with SRS 2006, the company redistributed bonds and investments of other mutual funds from short-term financial investments to long-term

financial investments. These are valued at fair value via capital. The calculation to market value at the end of the year amounted to SIT 11,191,000. The market value of investment coupons increased by SIT 6,555,000. Investments in other stakes not listed on the stock exchange, decreased only by added currency differences, which emerged in the past.

II.8.3.3. Short-term financial investments

In SIT 000

	Opening balance 31 Dec, 2005	1 Jan, 2006 according to SRS 2006	Closing balance 31 Dec, 2006
Fin. inv. at fair value	519.245	542.953	339.946
Fin. inv. disposable for sale	558.290	618.725	560.628
Bonds	17.828	-	-
Inv. coupons of other mutual funds	15.333	-	-
Short-term loans given	42.328	42.328	84.544
Short-term receivables for interests	6.905	6.905	3.023
TOTAL short-term financial investments	1.159.929	1.210.911	988.141

In order to harmonize the report with SRS 2006, the company redistributed bonds and investment coupons among long-term financial investments. The revaluation of shares, included in the 1st group according to market value, was presented as the increase of retained profit from previous years in the amount of SIT 23,708,000. Shares, included in the 4th group, were presented as the capital item – surplus from revaluation in the amount of SIT 58,001,000. When adjusting the report, the company maintained value impairments for some local companies shares, not listed on the stock exchange (Industrija usnja Vrhnika, Aero Celje, Komercialna banka Triglav, Jelovica and Perutnina Ptuj), in the amount of SIT 51,828,000.

The company also implemented revaluation to fair value of financial investments on 31 Dec 2006. Company's analyst department also made the evaluation of possible marketability for financial papers in non-marketable securities.

II.8.3.3.1 Short-term financial investments value impairment flow

In SIT 000

Flow	2005	Transition to SRS	2006
Balance of short-term financial investments value impairment on 1 Jan	61.416		51.828
+ Flow due to impairments in the cost of financial outflows	42.880		3.076
- Transfer of impairments due to sale among financial inflows	-10.415		-602
Balance of short-term financial investments value impairment on 31 Dec	93.881	-42.053	54.302

When harmonising the report to SRS 2006, the company reviewed the implemented impairments of financial investments' value and adjusted them to new standards. Due to this it partially eliminated the investment value adjustments in the amount of SIT 42,053,000, namely:

- For shares, distributed in the cost of decreasing the purchase value in the amount of SIT 33,652,000.
- For shares, distributed via the capital, estimated at fair value to the cost of decreasing the purchase value in the amount of SIT 5,967,000.

- For shares, distributed via the capital, estimated at purchase value, to the credit of retained profit from previous years in the amount of SIT 2,434,000.

II.8.4. Operating receivables

II.8.4.1. Long-term operating receivables and deferred receivables for taxes

In SIT 000

	Dec 31, 2005	1 Jan, 2006 according to SRS 2006	Dec 31, 2006
Payments to the CSCC guarantee fund	11.082	11.082	28.482
Long-term deferred receivables for taxes	11.384	11.404	3.060
TOTAL	22.466	22.486	31.542

II.8.4.2. Short-term operating receivables

In SIT 000

	Dec 31, 2006	Dec 31, 2005
Short-term receivables from buyers in Slovenia	86.574	149.039
- value adjustments	-11.197	-11.483
Short-term receivables from buyers in group	1.525	1.105
Short-term receivables from foreign buyers	6.346	7.774
Advance payments for current assets	1.197	1.273
Receivables for starting VAT	5.685	8.830
Company's receivables from trading account provider intended for trading	105.161	62.283
Short-term receivables from the sale of shares	-	14.509
Short-term receivables from others	6.504	9.319
TOTAL	201.795	242.649

Receivables from buyers, for which there is an assumption that they will not be settled or were not settled within the given date or entirely, are considered as doubtful. If there was court proceedings initiated due to such receivables, they are called as contestable receivables. The company formed value adjustments for such receivables and they present 13% of the value of short-term receivables from buyers. Operating receivables are not insured by debt material guarantee.

II.8.4.2.1. Short-term receivables from buyers value revaluation movement

In SIT 000

Receivables	Opening balance Jan 1, 2006	Increase	Decrease	Closing balance Dec 31, 2006
Receivables from buyers in Slovenia	11.483	2.562	2.848	11.197
Receivables from foreign buyers	0	0	0	0

II.8.4.1.2. Short-term receivables from buyers, distributed according to maturity dates

In SIT 000

Receivables	Not due	Due in 60 days	Due from 1 Jan, 2006 by 31 Oct 2006	Older than 1 Jan, 2006	Total
Receivables from buyers in Slovenia	72.920	2.427	1.651	9.576	86.574
Receivables from buyers in foreign countries	1.170	4.827	798	1.076	7.871
Total receivables	74.090	7.254	2.449	10.652	94.445
Stake in %	78,45%	7,68%	2,59%	11,28%	100%

II.8.5. Cash and cash equivalents

Cash includes cash and cash in the books. Cash is money the hand in the form of bank notes and coins. Cash in the books is money on the accounts at banks with paying capacities in Slovenia and abroad and at the Bank of Slovenia account. Book value of cash assets equals their face value until there is a need for revaluation. Cash, presented in foreign currency is translated into the domestic currency according to the Bank of Slovenia middle exchange rate on the day of the receipt. On the date of the balance sheet, we transformed all foreign cash assets according to the Bank of Slovenia middle exchange rate.

In SIT 000

	Dec 31, 2006	Dec 31, 2005
Tolars and foreign currencies in cash box	65	90
Tolars in local commercial banks	10.779	480
Foreign currencies in local commercial banks	1.793	17
Foreign currency in foreign commercial banks	26	26
TOTAL	12.663	613

ILIRIKA d.d. can use the common limit in the amount of SIT 50mn at NLB bank until 1 June, 2007, however, this limit was not used until 31 Dec, 2006. Interest rate for this limit amounts to 5.60%.

II.8.6. Capital

Total capital consists of called-up capital, reserves from profit, retained net profit or loss from previous years, equity revaluation adjustments, and the undistributed net profit for the financial year.

Share capital consists of 250,000 ordinary nominal shares. Face value of one share is SIT 2,000.00. Shares are completely paid.

The average number of ordinary shares is 250,000.

Net profit per share = net profit for the financial year / number of shares and amounts SIT 1,659.26 which in comparison with 2005 decreased by 410.6 percentage points.

On 31 Dec, 2005 book value of ILIRIKA d.d.'s share amounted SIT 3,861.04, and on 31 Dec 2006, it amounted to SIT 3,861.04.

Reserves from profit were formed in accordance with Article 60 of the Companies Act in the amount of 5% of net profit.

The management proposes to the company's assembly that the established accumulated profit on the date of the balance sheet in the amount of SIT 394,074,000.00 remains undistributed.

II.8.6.1. Revaluation surplus flow chart

In SIT 000

	Long-term financial investments	Short-term financial investments	Deferred taxes	TOTAL
Opening balance on 31 Dec, 2005	253,799	0	0	253,799
Adjustments according to SRS 2006	(241,318)	58,001	(17,620)	(200,937)
Opening balance on 31 Dec, 2006	12,481	58,001	(17,620)	52,862
Adjustments to fair value	6,555	112,250	(26,929)	91,876
Elimination in revenues credit	0	(50,647)	12,662	37,985
Closing balance on 31 Dec, 2006	19,036	119,604	(31,887)	106,753

When harmonizing the report with SRS 2006, the company decreased the surplus of long-term financial investments surplus by eliminating the profit of affiliated companies, made in the past, according to the capital method in the amount of SIT 253,799,000. The company also recalculated the financial investments, available for sale, and recognized the deferred tax in the amount of 25%.

II.8.7. Long- and short-term debts

There are long- and short-term operating and financial debts. All debts are valued by amounts from appropriate documentation on their origin which prove the acceptance of cash or payment of any operating debt, in case of short-term operating debts, the acceptance of any product or service or invoiced cost, expense and share in the financial report.

Book value of short-term debts equals their original value which is adjusted by their increases or decreases in accordance with creditors until there is a need for their revaluation. Liabilities are presented as short-term debts which need to be settled at least in one year.

The fair value of financial debts equals book value.

II.8.7.1. Long-term debts

In SIT 000

Liabilities	31 Dec, 2005	Transition to SRS 2006	31 Dec, 2006	Maturity date	Interest rate
Long-term financial liabilities to banks	28,000	28,000	20,000	1 June, 2010	SITIBOR+1,3%
Long-term financial liabilities to supervisory board members	47,539	47,539	0	22 Feb, 2007	3,36%
Long-term operating liabilities for taxes due to transition to SRS 2006	0	11,099	7,399	2009	
Deferred liabilities for taxes from investment revaluation	0	17,620	31,888	At sale	
TOTAL LONG-TERM LIABILITIES	75,539	104,258	59,287		

II.8.7.2. Short-term debts

In SIT 000

Liabilities	Dec 31, 2006	Dec 31, 2005
1. Short-term financial liabilities	592,235	1,214,452
Short-term liabilities to banks for loans and interests	579,385	893,770
Short-term liabilities to legal entities for loans and interests	0	244,658
Short-term liabilities to natural entities for loans and interests	12,850	76,024
2. Short-term operating liabilities	318,144	174,489

Short-term liabilities to suppliers in Slovenia	124,346	121,385
Short-term liabilities to foreign suppliers	1,428	19,395
Short-term liabilities to employees	19,111	10,151
Short-term liabilities to the state	169,313	22,671
Other short-term liabilities from operating	3,946	887
TOTAL	910,379	1,388,941

Loans, received from banks refer to:

In SIT 000

Bank	Amount in SIT 000	Maturity date	Interest rate	Insurance
Banka Domžale d.d. (short-term part of long-term loan)	8,000	1 st in month	SITIBOR+1.3%	Pledge of real estate: k.o. Ajdovščina, land reg. no: 747
NLB d.d.	100,000	28 May, 2007	4.50	10 bianco drafts
Poštna banka Slovenije	150,000	9 March, 2007	4.85%	4 bianco drafts 4 payment orders
Poštna banka Slovenije	200,000	18 Dec, 2007	4.60%	4 bianco drafts 4 payment orders
Deželna banka Slovenije	1,390	16 Feb, 2007	4.70%	5 bianco drafts 5 payment orders Pledge of securities: 560 KRKG
Deželna banka Slovenije	170,000	2 April, 2007	4.80%	5 bianco drafts 5 payment orders
Deželna banka Slovenije	64,500	16 Feb, 2007	4.70%	5 bianco drafts 5 payment orders
Interests on loans, received from banks	3,050			
TOTAL	579,383			

At NLB d. d., the company has the possibility to use the common limit in the amount of SIT 50mn by 1 June, 2007, however, this limit was not used by 31 December, 2006. Interest rate for the use of this limit is 5.60%.

The company has also concluded a loan contract for the frame revolving loan in the amount of SIT 2.5mn with Abanka Vipava d.d. for the payment of liabilities for the use of two Visa business credit cards. Maturity date for the payment of the loan is 15 April 2007.

Loans, received from natural entities, are not insured and refer to:

Natural entity	Amount in SIT 000
Štemberger Igor	7,000
Štemberger Franc	5,850
Interests on loans	0
TOTAL	12,850

II.8.8. Deferred taxes

II.8.8.1. Receivables for deferred taxes

Receivables for deferred taxes are the amounts of tax on profit, which the taxation office will return in the future periods considering the deducted temporary difference at the use of tax rates, valid on the date of the balance sheet.

In SIT 000

	31 Dec, 2005	1 Jan, 2006	Deferred taxes	31 Dec, 2006
Short-term receivables impairments to buyers	664	664	145	808
Receivables impairments for interests	0	0	603	603
Financial investments impairments – Slovenia	2,307	2,327	(851)	1,476
Financial investments impairments - abroad	8,413	8,413	(8,240)	173
RECEIVABLES FOR TAXES	11,384	11,404	(8,344)	3,060

On 31 December 2005, the company's balance sheet presented receivables for deferred taxes from the above mentioned impairments in the amount of SIT 11,384,000. When harmonizing the report with SRS 2006, the company additionally presented receivables for deferred taxes in the amount of SIT 20,000, which refers to financial investments impairments adjustments.

II.8.8.2. Liabilities for deferred taxes

Deferred liabilities for tax are the amounts of tax on profit, which will in the future have to be presented for all taxable temporary differences. The company formed liabilities for deferred taxes from financial investments revaluation that are valued at fair value via capital.

In SIT 000

	1 Jan, 2006	Deferred taxes via capital	31 Dec, 2006
Financial investments revaluation via capital	17,620	14,267	31,887

When harmonizing the report with SRS 2006, the company presented liabilities for deferred tax from the calculation of financial investments, which it distributed to group 1 and established tax in the amount of SIT 17,620,000.

From sale of financial investments during the year, the company transferred a part of its liabilities via the profit and loss account in the amount of SIT 12,661,000 and recalculated the liabilities from the financial investments valued at fair value, namely, via the capital in the amount of SIT 26,929,000.

II.8.8.3. Deferred liabilities for tax due to transition to SRS 2006

On the basis of transition to SRS 2006, the company established the following differences, which affected the profit and loss account on 1 January 2006:

In SIT 000

Item that is recalculated	Decrease of profit or loss	Increase of profit or loss	Deferred tax
Revaluation of long-term financial investments in affiliated companies to original purchase value	11,037	24,204	4,568
Revaluation of financial investments, calculated at fair value via the profit or loss account		23,708	5,927
Elimination prior the financial investments value adjustment formation prior to 1 Jan, 2006		2,414	604
Elimination of faults – revaluation of MBLG share		40	
TOTAL	11,037	50,366	11,099
Transfer of 1/3 of liabilities in 2006 tax account			3,700
Long-term liabilities for taxes due to transition			7,399

II.8.9. Accrued and deferred items

Deferred costs and accrued revenues include short-term deferred costs and short-term non-calculated revenues; accrued costs and deferred revenues include accrued costs and short-term deferred revenues. The company makes separate presentations of these items and distributes them to important types.

	In SIT 000	
	Dec 31, 2006	Dec 31, 2005
Deferred costs and accrued revenues		
Short-term deferred costs/expenses	3,439	2,015
Short-term non calculated revenues	2,590	2,071
TOTAL	6,029	4,086

	In SIT 000	
	Dec 31, 2006	Dec 31, 2005
Accrued costs and deferred revenues		
Accrued costs/expenses	5,941	5,936
Accrued interests for received loans	309	7,624
TOTAL	6,250	13,560

II.8.9.1. Review of short-term accrued and deferred items formation and withdrawal

	In SIT 000			
	Opening balance Jan 1, 2006	Additionally formed	Used	Balance Dec 31, 2006
Deferred costs and accrued revenues	4,086	7,925	5,982	6,029
Accrued costs and deferred revenues	13,560	8,360	15,670	6,250

II.8.10 Off-balance records

	In SIT 000	
	Dec 31, 2006	Dec 31, 2005
Securities, included in stock broking for clients	92,747,977	78,309,720
Securities, included in asset management for clients	5,948,546	3,975,963
Pledge of securities	105,312	64,177
TOTAL	98,801,835	82,349,860

II.9. DISCLOSURES OF ITEMS IN PROFIT AND LOSS STATEMENT

Profit and loss statement is the basic financial report, which presents the amount of revenues, which the company created in one year, what was the amount of expenses and what kind of profit and loss account is applicable for such operations. For the implementation of the profit and loss account we chose the 1st version, which defines the profit and loss by levels. Costs are presented according to natural types.

Methods, described in continuation were used for the preparation of the profit and loss statement.

II.9.1. Revenues

Revenues are recognised if the increase in economic benefits in the account period, relates to the asset increase or debt decrease, and the increase can be reliably measured.

Revenues are recognised when it is justifiably expected that they will produce receipts, if they are not realised at the accrual.

II.9.1.1. Net sales revenues

	In SIT 000	
	2006	2005
1. NET SALES REVENUES	613,382	433,100
Revenues from sales of stock broking services - Slovenia	264,436	245,794
Revenues from sales of stock broking services - foreign markets	32,739	1,299
Revenues from sales of asset management services	205,925	100,933
Revenues from services in connection to takeovers - Slovenia	4,648	20,771
Revenues from services in connection to takeovers – foreign markets	30,325	39,239
Revenues from investment consulting services - Slovenia	33,950	14,250
Revenues from investment consulting services – foreign markets	33,543	7,774
Other services, executed in Slovenia	7,816	3,040
2. Other operating revenues	14,541	77,689
TOTAL	627,923	510,789

Revenues from executed services, except from service that lead to financial revenues, are presented on the basis of the calculated sales.

II.9.1.2. Financial revenues

Financial revenues are revenues from investing. They arise in relation to long-term and short-term financial investments, and also in relation to receivables. Financial revenues are recognised at the establishment of Statement of Accounts, regardless of receipts, if there is no justifiable doubt related to their volume, expiration and repay ability. Interest is accounted for in proportion with the expiry period and according to the non-repaid principal part and the valid interest rate.

	In SIT 000	
	2006	2005
1. FINANCIAL REVENUES FROM STAKES	630,837	302,768
Revenues from stakes in profit or received dividends	30,878	23,786
Revenues from sale of stakes in local companies	212,431	221,825
Revenues from sale of stakes in foreign companies	173,433	44,508
Revenues from sale of stakes in group	83,895	0
Revenues from revaluation of investments, calculated at fair value	77,985	0
Revenues from the transfer of investment revaluation surplus via capital	51,249	10,415
Revenues from sale of other investments	966	2,234

Revenues from sale of securities are calculated according to the average purchase prices method. For differences that emerge in sales, the company presents financial revenues and expenses.

II.9.1.3. Other revenues

In SIT 000

	2006	2005
Recovered written-off receivables from previous years	2,176	3,705
Received indemnities	10,000	10,576
Tax administration interest on arrears	30,852	0
Other uncommon items	345	49
TOTAL	43,373	14,330

II.9.2. Expenses

Expenses are recognised if the decrease in economic benefit in the account period relates to the asset decrease or debt increase, and the decrease can be reliably measured.

II.9.2.1. Operating expenses

II.9.2.1.1. Costs of goods, material and services

In SIT 000

	2006	2005
1. COSTS OF MATERIAL	21.987	22.972
Energy costs	5.165	6.598
Stationery and specialised literature	9.968	9.695
Other costs of material	6.854	6.679
2. COSTS OF SERVICES	297.790	251.283
Post services, mobile and internet services	32.212	28.309
Maintenance costs	18.501	13.042
Rents	28.302	31.177
CSCC, stock exchange, banks and insurance companies costs	113.032	79.369
Costs of mediation at sale of securities	16.475	14.331
Advertising costs	23.792	36.098
Accountancy, auditing and legal services costs	15.109	17.899
Costs of annual report auditing	3.594	2.817
Other personal and intellectual services costs	35.771	15.515
Other costs of services, related to operations	11.002	12.726
TOTAL	319.777	274.255

II.9.2.1.2. Labour costs

The company calculated the costs for in average 24.63 regularly employed employees and other costs of labour according to the general collective contract for economy.

II.9.2.1.3. Value write-offs

	In SIT 000	
	2006	2005
Depreciation and revaluation operating expenses in fixed assets and intangible long-term assets	49,864	22,359
Revaluation operating expenses in current assets (receivables)	5,233	2,677
TOTAL	55,097	25,036

The value of tangible and intangible fixed assets that has not been written off is decreased by amortisation. The company uses the method of proportionate time amortisation. The amortisation of a tangible fixed assets initiates the first day of the following month after it is being used for the implementation of activity for which it is intended. Intangible long-term assets start being amortised when it is available for use.

The company independently determines annual amortisation levels with regards to the period of use of every individual tangible and intangible fixed asset and they amount:

Buildings	5%
Office equipment and small inventories	25%
Interior equipment	12.5%
Hardware and software	50%
Investments in foreign assets	20%

The company implements the formation of short-term receivables from buyers value adjustments according to individual formation on the basis of 60-day payment term.

II.9.2.1.4. Other operating expenses

Other operating expenses include the costs of donations for humanitarian help and other taxes that do not depend on operations (fees for the use of land, contribution for promoting the employment of the disabled).

II.9.2.2. Financial expenses

Financial expenses are expenses for financing and expenses from investment. They are recognized according to the calculation and with regards to the payments connected to them:

	In SIT 000	
	2006	2005
1. Financial expenses from financial investments impairments and write-offs	20,934	66,945
2. Financial expenses from financial liabilities	73,287	88,653
Financial expenses for interests on loans, received from banks	47,313	41,432
Financial expenses for interests on loans, received from others	6,017	7,232
Losses at sales of financial investments - Slovenia	2,028	3,607
Losses at sales of financial investments - abroad	17,929	36,382
3. Financial expenses from operating liabilities	3,312	155
TOTAL	97,533	155,753

Distribution of costs according to functional groups

In SIT 000

	2006	2005
Value of sold operating effects	0	0
Costs of sales	459,247	447,171
Costs of general activities	183,845	150,224
TOTAL	643,092	597,395

II.9.2.4. Additional disclosures of net profit or loss

For the operating year 2006 the company established net profit in the amount of SIT 414,814,000. If the company would revalue the capital at the consumer goods price increase rate (2.8%), net profit would amount to SIT 392,623,000. If the company would revalue the capital at the EUR increase rate (0.03%), net profit for 2006 would amount to SIT 412,436,000.

II.9.2.5. Disclosures in connection to calculated and deferred taxes

In SIT 000

	2006		2005	
	Value	Rate	Value	Rate
1. Profit before taxation in accordance with SRS	558,493		72,423	
2. Tax on profit according to official rate	139,623	25.00 %	18,106	25.00 %
+ Expenses, not taxable	4,729	0.84 %	21,140	29.19 %
- Revenues, not taxable	-7,951	-1.42 %	-13,000	-17.95 %
- Tax relief	-1,066	-0.19 %	-23,677	-32.69 %
- Use of tax loss	0	0	0	0
3. Actual tax on profit	135,335	24.23%	2,569	3.55%

II.10. CASH FLOW STATEMENT DISCLOSURES

The company prepared the cash flow statement according to the second version on the basis of data, arising from profit and loss account for the operating year and data from the balance sheet.

The cash flow statement contains data for 2005 according to SRS 2001, which are redistributed according to inflows and outflows in valid cash flow schemes according to SRS 2006 and recalculated the most significant items as follows:

In SIT 000

	1 Jan, 2006 according to SRS 2006	31 Dec, 2005
Inflows from investing	1,589,439	330,215
Outflows from investing	-2,007,804	-748,580
Inflows from financing	2,414,507	735,840
Outflows from financing	-1,731,453	-52,786

II.11. OTHER DISCLOSURES

II.11.1.

The two-member management board in 2006 included: Mr Igor Štemberger as the Chairman of the board and Mr Zlatko Jenko, MSc as the Member of the Board.

The chairman of the supervisory board was Mrs Jelka Štemberger, members of the board were Mrs Pavlina Štemberger and Mrs Sandra Štemberger.

II.11.2.

The Chairman of the Management Board and both persons who executed the functions of the member of the board are or were regularly employed in the company and received gross personal income in 2006 including other costs in connection with their work in the amount of gross SIT 30,005,713. There were no other awards or participation in profit. Employees received gross income and other costs in connection to their work in the gross amount of SIT 11,117,328 on the basis of contracts, which are not subject to the tariff part of the collective contract.

II.11.3.

The company's short-term financial liabilities arising from received loans and interests, which were provided by the chairman of the management board and the company's owner amount to SIT 7,000,000.

The company does not have any liabilities or debts to the member of the board, the chairman or any other member of the supervisory board.

II.12. RATIOS

Ratio	2006	2005
Capital to liabilities	0.564	0.395
Long-term liabilities ratio	0.434	0.599
Long-term financing ratio	0.590	0.426
Fixed operating assets to total assets	0.393	0.284
Long-term assets to total assets	0.460	0.424
Capital to fixed operating assets	1.436	1.392
Immediate solvency ratio	0.014	0.000
Quick ratio	1.312	1.000
Current ratio	1.319	1.003
Operating efficiency ratio	0.965	0.855
Net return in equity	0.500	0.101
Net return in share equity	0.830	0.162
Dividend to equity ratio	0.000	0.000

Ljubljana, April 19, 2007

ILIRIKA borzno posredniška hiša d.d.
Igor Štemberger