# INDUSTRIAL HOLDING BULGARIA PLC

## INTERIM UNCONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD ENDED 30 JUNE 2009

**Income Statement**
**For the Period Ended 30 June 2009**

| *In thousands of BGN* | **Note** | **2009 30 June** | **2008 30 June** |
|---|---|---|---|
| **Income from interests, dividends and investment transactions** | 6 | **2,756** | **6,020** |
| **Other operating income** | 7 | **209** | **91** |
| | | **2,965** | **6,111** |
| Payroll costs | 8 | (220) | (174) |
| Costs of hired services | | (85) | (151) |
| Other operating expenses | 9 | (66) | (137) |
| **Net operating income** | | **2,594** | **5,649** |
| Financial income | | **-** | - |
| Financial expenses | | (879) | (48) |
| Net financial income/(expenses) | 10 | (879) | (48) |
| Tax income (expenses) | | **-** | **-** |
| **Profit prior to taxation** | | **1,715** | **5,601** |
| Tax income (expenses) | 11 | **(96)** | (31) |
| **Profit after taxation** | | **1,619** | **5,570** |
| Basic earnings per share (in BGN) | 21 (a) | 0,037 | 0,127 |

This Income Statement shall be considered together with the Notes given on pages 6 to 30, which form integral part of these Financial Statements.

Executive Director: Ms. Toshka Vassileva
Daneta Zheleva *Prepared by:*

**Balance Sheet**
**as of 30 June 2009**

| *In thousands of BGN* | Note | 2009<br>30 June | 2008<br>31 December |
|---|---|---|---|
| **Non-current assets** | | | |
| **Non-current tangible and intangible assets** | 12 | 70 | 79 |
| **Investments in subsidiaries** | 13 | 49,033 | 49,033 |
| **Investments in associates** | 14 | 4,470 | 4,471 |
| **Long-term loans of related parties** | 15 | 64,148 | 29,810 |
| **Total non-current assets** | | 117,721 | 83,393 |
| | | | |
| **Current assets** | | | |
| **Trade and other receivables** | 17 | 171 | 266 |
| **Receivables from related parties** | 18 | 810 | 12,964 |
| **Cash and cash equivalents** | 19 | 19,428 | 40,289 |
| **Materials** | | 3 | 3 |
| **Total current assets** | | 20,412 | 53,522 |
| **Total assets** | | 138,133 | 136,915 |
| | | | |
| **Equity** | | | |
| **Share Capital** | 20 | 43,756 | 43,756 |
| **Premium reserves** | | 24,503 | 24,503 |
| **Reserves** | | 6,297 | 6,297 |
| **Retained earnings (net)** | | 22,156 | 20,537 |
| **Total equity and reserves** | | 96,712 | 95,093 |
| | | | |
| **Long-term payables** | | | |
| **Debenture loan** | | 21,650 | 21,650 |
| **Long-term payables** | | 3 | 3 |
| **Total non-current liabilities** | 21 | 21,653 | 21,653 |
| | | | |
| **Current liabilities** | | | |
| **Trade and other payables** | 22 | 19,731 | 20,122 |
| **Tax payables** | | 37 | 47 |
| **Total current liabilities** | | 19,768 | 20,169 |
| **Total equity and liabilities** | | 138,133 | 136,915 |

This Balance Sheet shall be considered together with the Notes given on pages 6 to 30, which form an integral part of these Financial Statements.

*Executive Director:* *Prepared by:*

Ms. Daneta Zheleva: Ms. Toshka Vassileva

**Cash Flow Statement**
**For the period ended 30 June 2009**

| *In thousands of BGN* | Note | 30 June 2009 | 30 June 2008 |
|---|---|---|---|
| ***Operating cash flow*** | | | |
| Receivables from sale of shares and other trade receivables | | 178 | 1,233 |
| Dividends received | | 1,959 | 2,818 |
| Loans repaid | | 896 | 3,662 |
| Interests received | | 791 | 551 |
| Payments related to acquisition of shares and stocks | | - | (3,425) |
| Loans granted | | (22,896) | (43,983) |
| Payments related to payroll | | (206) | (170) |
| Foreign exchange gain (loss) | | (5) | (35) |
| Profit taxes paid | | (105) | 44 |
| Cash flows related to unexercised rights of shareholders (net) | | (376) | 20,189 |
| Other payments | | (242) | (537) |
| ***Net operating cash flow*** | | **(20,006)** | (19,653) |
| ***Investment cash flow*** | | | |
| Purchase (sale) of non-current tangible assets | | 9 | (5) |
| ***Net investment cash flow*** | | **9** | (5) |
| **Financial cash flow** | | | |
| **Loans repaid and interests paid** | | - | (219) |
| **Bond interests paid** | | (863) | - |
| Other financial payments | | (1) | (2) |
| ***Net financial cash flow*** | | (864) | (221) |
| Increase/ (decrease) in cash and cash equivalents | | **(20,861)** | (19,879) |
| Cash and cash equivalents at the beginning of the period | | 40,289 | 42,146 |
| **Cash and cash equivalents as of 30 June** | **19** | **19,428** | **22,267** |

This Cash Flow Statement shall be considered together with the Notes given on pages 6 to 30, which form an integral part of these Financial Statements.

*Executive Director:* *Prepared by:*

Ms. Daneta Zheleva: Ms. Toshka Vassileva

| *In thousands of BGN* | Note | Share capital | Statutory reserves | Additional reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance as of 1 January 2008** | | **43,756** | **1,740** | **26,424** | **14,782** | **86,702** |
| Profit for the period | | **-** | **-** | **-** | **5,570** | **5,570** |
| Allocation of the profit for 2007 | | | **2,636** | | **(2,636)** | **-** |
| **Balance as of 30 June 2008** | 21 | **43,756** | **4,376** | **26,424** | **17,716** | **92,272** |
| | | | | | | |
| **Balance as of 1 January 2009** | | **43,756** | **4,376** | **26,424** | **20,537** | **95,093** |
| Profit for the period | | **-** | **-** | **-** | **1,619** | **1,619** |
| **Balance as of 30 June 2009** | | **43,756** | **4,376** | **26,424** | **22,156** | **96,712** |

**Equity Statement**
**For the period ended 30 June 2009**

This Equity Statement shall be considered together with the Notes given on pages 6 to 30, which form an integral part of these Financial Statements.

**Executive Director:** Ms. Daneta Zheleva:

*Prepared by:* Ms. Toshka Vassileva

## Notes to the Financial Statements

**1. Status and scope of operations**
Industrial Holding Bulgaria Plc (the Company or the Holding) is a joint-stock company registered in the Republic of Bulgaria – company file No 13081 of 1996 having its seat in Sofia and address of management at 42 Damyan Gruev Str., Sofia.
Initially the Company was established as a privatization fund in compliance with the Law on Privatization Funds under the name of Privatization Fund Bulgaria AD.

The General Meeting of Shareholders made a decision on rearrangement of the activities of Privatization Fund Bulgaria AD as a holding company and change of the name of the latter to Industrial Holding Bulgaria Plc at a session held on 27 February 1998. The capital of the Company amounts to BGN 43,756,118. The Company has a two-tier system of management including a Management Board and a Supervisory Board.

The scope of operations of the Company includes acquisition, management, assessment and sale of shares in Bulgarian and foreign companies, acquisition, assessment and sale of patents, cession of licenses for usage of patents of companies in which the Company holds interests, financing of companies in which the Company holds interests, as well as any other activity not prohibited by law.

The activity of the Company is bound by no term or other termination clause.

The Company is entered into the BULSTAT Unified Public Classifier of Economic Entities under Identification No BG 121631219 and is registered with the State Public Social Security Office. The Company is registered under the VAT Law. The shares of the Company are traded at Bulgarian Stock Exchange AD – City of Sofia

**2. Basis of preparation**
**(a) Statement of compliance**
These Financial Statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) prepared by the International Accounting Standards Board and adopted by the Commission of the European Union.
The financial statements of the Company's subsidiaries were not consolidated as of 30 June 2009. As per the requirements of the national legislation a consolidated report as of 31 March of the present year has to be drafted and presented by 30 August 2009.
These Financial Statements should be read in relation to the annual financial statements of the Company as of 31.12 December 2008.
**(b) Basis of measurement**
These Financial Statements have been prepared based on historical cost with the exception of:
- Financial assets reported at fair value through profit and loss at fair value;
- Financial assets available for sale, which have been valued at their fair value

The methods used for fair value measurement are presented in detail in Note 4.
*(c)* **Functional currency and reporting currency** These Financial Statements are presented in BGN. The functional currency of the Company is the Bulgarian lev. The financial data in the Annual Financial Statements are given in thousands of BGN.

## Notes to the Financial Statements

**2. Basis of preparation, continued**

**(d) Used estimates and assumptions**

The preparation of financial statements in compliance with IFRS requires that the Company's Management makes decisions and estimates and assumptions affecting the accounting policies and the amounts of the reported assets, liabilities, income and expenses. The actual results may differ from such estimates made.

The estimates and the related assumptions are reviewed on a regular basis. The results of the accounting policies review are recognized over the period of review if the review concerns only this period, or over the period of review and future periods if the review concerns both the current and future periods.

The Management has made no significant estimates in the application of IFRS that might have material effect on the financial statements and estimates bearing material risk of significant adjustments over the next year.

**(e) Going concern**

The Financial Statements are prepared on the basis of the assumption that the Company is a going concern and will continue to operate in the foreseeable future.

In the last three months of 2008 the credit crisis affecting the global markets has intensified and has grown into a practically comprehensive market crisis. It has affected all sectors and industries. The possibility of a considerable delay of the economic growth and even recession for some economic regions and countries is a fact. This creates prerequisites for the Company to carry out with its business in an increasingly more difficult and ever more unpredictable business environment. The Management estimates that the existing capital resources and funding sources will be adequate for the liquidity needs during the current 2009.

**3. Significant accounting policies**

The accounting policies described below have been consistently applied over all periods included in these Financial Statements.

**(a) Consolidation basis**

The Company prepares its consolidated financial statements by consolidation of all local and foreign subsidiaries.

Consolidation is made under the purchase method by consolidation of the assets, liabilities, equities and financial results of all subsidiaries of IHB Plc.

Significant investments in associates are consolidated under the equity method, which requires initial reporting of an investment at cost (acquisition costs) and subsequent readjustment based on the changes in the investor's interest in the net assets of the company where it has invested.

***(i) Subsidiaries***

Subsidiaries are the enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences to the date on which control is terminated. The accounting policies applied by the subsidiaries undergo changes, when necessary, in order to be harmonized with the policies applied by the Company.

## Notes to the Financial Statements

### 3. Significant accounting policies, continued

**(a) Consolidation basis, continued**

The individual statements of the Company report investments in subsidiaries at cost less impairment loss. The share of allocation of the net profit of the enterprises, where the Company has invested, i.e. the dividend following its distribution, is reported as current financial income.

***(ii) Associates***

Associates are enterprises where the Company has significant influence, but not control, over the financial and operating policies. Income in the form of dividends is recognized following measurement. The individual statements of the Company report investments in associates at cost less impairment loss.

**(b) Foreign currency transactions**

Transactions in foreign currency are recalculated in the respective functional currency of the Company at the exchange rate of the Bulgarian National Bank (BNB) effective on the date of the transaction. On the balance sheet date monetary assets and liabilities denominated in foreign currencies are recalculated into the functional currency applying the closing foreign exchange rate of the Central Bank for that date. Foreign currency gain or loss represents the difference between the depreciated value of the functional currency at the beginning of the period adjusted by the interests based on the effective interest rate applied over the period and the depreciated value of the foreign currency recalculated as per the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency reported at fair value are recalculated in the functional currency applying the foreign exchange rate effective on the date of fair value determination. Foreign currency gain and loss arising as a result of recalculation is recognized as profit or loss, except for differences resulting from readjustment of equity instruments available for sale, financial liabilities defined as hedging for net investments in foreign operations or qualified as a hedge of monetary positions which are reported directly in the equity.

**(c) *Financial instruments***

***(i) Non-derivative financial instruments***

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

Non-derivative instruments are initially recognized at fair value or at fair value plus all acquisition costs for instruments not reported at fair value in the profit or loss. Following initial recognition, financial instruments are valued as described hereinafter.

Non-derivative instruments are initially recognized at their fair value. Financial instruments are recognized when the Company becomes a party to the instrument contractual terms and conditions. Financial assets are no longer recognized when the rights agreed on the cash flows from the financial assets become invalid or the Company transfers the financial asset to third parties without retaining control or significant asset-related risks and benefits. The purchase and sale of financial assets in the ordinary course of operations are reported as of the transaction date, i.e. the date on which the Company has undertaken to purchase or sell the asset. Financial liabilities are no longer recognized when the liabilities of the Company as per the contract become invalid or exempted or cancelled.

## Notes to the Financial Statements

### 3. Significant accounting policies, continued

**(c) Financial instruments, continued**

*Cash and cash equivalents*

Cash and cash equivalents include cash in hand and at bank, letters of credit and short-term bank deposits with original maturity of up to three months. For the purposes of the cash flow statement, bank overdrafts payable on demand and which form integral part of the cash flows managed by the Company are included in the cash and cash equivalents.

*For the purposes of the Cash Flow Statement:*

- Cash proceeds from customers and cash payments to suppliers are presented as gross, including VAT (20%).

- Cash flows related to acquisition and sale of equity shares and stocks in companies in which the Holding invests, as well as dividends received from them, are reported as proceeds from and payments for operating activities.

- Cash flows related to the granting of credit loans to subsidiaries, as per Article 280 of the Commerce Act and the proceeds upon their reimbursement are included as proceeds from and payments for operating activities.

- The underwriting of cash from the issue of equity securities or debenture securities, short-term or long-term loans from lenders external for the Company's operations or non-banking institutions, including companies in the Group, and their repayment, as well as the payment of dividends, are reported as proceeds from and payments for financing activities.

*Held-to-maturity Investments*

Debt instruments, which the Company intends and is able to hold to maturity, are classified as debt held-to-maturity instruments. Held-to-maturity investments are reported at amortized cost based on the effective interest method less subsequent impairment.

*Financial assets available for sale*

The Company's investments in equity and certain debt securities are classified as financial assets available for sale. Subsequent to their initial recognition they are valued at fair value and any revaluation gains or loss other than impairment loss and exchange rate gains and loss of monetary assets available for sale (see Note 3(b)) are reported in equity. Upon derecognition of investment in financial assets available for sale, the revaluations accumulated in equity are recognised as current profit and loss.

*Financial assets measured at fair value through profit or loss*

Financial assets are classified as financial assets measured at fair value through profit or loss if they are held for trading or if they have been designated as such upon their initial recognition. Financial instruments are classified as financial assets measured at fair value through profit or loss if the Group manages such investments and makes decisions on purchase and sale based on their fair value in compliance with the Company's risk management policy and investment strategy. Upon their initial recognition the direct expenses associated with the acquisition are recognised in the income statement upon origination. Financial assets measured at fair value through gain and loss are valued at fair value and the resultant gain and loss is reported in the income statement.

## Notes to the Financial Statements

### 3. Significant accounting policies, continued

**(c) Financial instruments, continued**

*Other investments*

Other non-derivative instruments are measured at amortized cost based on the effective interest method less impairment loss.

*Trade and other receivables*

Trade and other receivables are presented at amortised acquisition cost less any unrecoverable amounts. Such unrecoverable amounts are presented as impairment loss based on the estimated recoverable amounts of trade receivables. For sales realised under share sale agreements and stated terms of payments, the portion of the receivable which should be paid within one year as of balance sheet date as per the contractual terms is presented as short-term. Receivables under loans granted under Article 280, Paragraph 1 of the Law on Commerce are presented similarly.

Receivables under shares sale agreements and loans granted are split into short-term and long-term depending on the term of their collectibility.

*Interest-bearing loans*

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

*Trade and other payables*

Short-term and long-term payables in Bulgarian leva are measured at amortised cost. Dividend payables and the current portion of long-term debt are stated in the balance sheet as short-term payables.

***(ii) Share capital***

*Ordinary shares*

Ordinary shares are classified as equity. The costs directly related to the issue of ordinary shares and share options are recognized as decrease in the equity, net of all tax effects.

**(d) Non-current tangible assets**

Property, plant and equipment are valued at acquisition cost less the accumulated depreciation and impairment loss. Newly acquired property, plant and equipment are reported at acquisition cost, which includes the purchase price and costs incurred to commission the asset.

When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

The Management of the Company has adopted a policy on assets capitalization in case their acquisition cost is equal to or exceeds the materiality threshold of BGN 700.

## Notes to the Financial Statements

**3. Significant accounting policies, continued**

**(d) Non-current tangible assets, continued**
Gains and loss resulting from sale of property, plant and equipment are measured by comparison of the sales income and the book value of the property, plant and equipment and recognized as other income in the income statement. In case of sale of revalued assets, the amount of the revaluation reserve is transferred into prior-year accumulated profit and loss.

Expenses incurred to replace a component of an item of property, plant and equipment that is accounted for separately are capitalised. Other subsequent expenses are capitalised only when the future economic benefits embodied in the item of property, plant and equipment is increased. All other expenses are recognised in the income statement as expenses as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, which are accounted for separately. Assets acquired under finance lease terms are depreciated over the shorter of the two: the lease term or their useful life. Land is not depreciated.

An asset is depreciated as of the moment at which it is ready for use, i. e. when it is at the place and in the condition required for its exploitation in the manner determined by the Management.
An asset is no longer depreciated as of the date on which it is classified as an asset held for trading or the date on which it is written off, whichever comes first.

The expected useful lives are as follows:
- Computers and computer equipment  2 -5 years
- Motor vehicles /cars/  5 years
- Fixtures and fittings and all others  6 -10 years

The method of depreciation, useful lives and the remaining value are reviewed at each balance sheet date.

**(e) *Intangible assets***
Intangible non-current assets acquired by the Company are presented at acquisition cost less the accumulated amortisation and impairment loss, if any.

The amortisation of intangible assets is charged based on the straight-line amortisation method depending on their assessed useful lives.
- Patents and trade marks  4 - 7 years
- Software  4 - 7 years

**(f) Impairment of Assets**
***(i) Financial assets***
A financial asset is considered impaired if there are objective evidence proving that one or more events have negatively affected projected cash proceeds from this financial asset.

**Loss from impairment of a financial asset reported at amortized value is calculated as the difference between its current carrying amount value and present value of future cash proceeds, generated from this asset and discounted by its initial effective interest rate. Loss from impairment of a financial asset available for sale is calculated in consideration of its current fair value.**

## Notes to the Financial Statements

**3. Significant accounting policies, continued**

**(f) Impairment of Assets, continued**
**Financial assets, which are individually significant, are examined for impairment separately. All other financial assets are assessed collectively, divided into groups as per similar credit risk characteristics.**

**All impairment losses are recognized in the income statement. Losses with accrual, related to financial assets available for sale and recognized for previous periods in the capital, are taken to the income statement.**

**Impairment loss is reversed when such reversal may be objectively related to an event occurring following the recognition of the impairment. Reversal of impairment of financial assets reported at amortized value and financial assets available for sale, which are debenture securities, is recognized in the income statement.** Reversal of impairment of financial assets available for sale, which are equity securities, is directly recognized in the equity.

***(ii) Non-financial assets***
The carrying amount of the Company's assets, except for the inventories and deferred taxes, is reviewed as of each balance sheet date with a view to establishment of possible impairment indications. **If such indications exist, an approximate calculation of the asset recoverable amount is made. For intangible assets with indefinite useful life, not ready for use yet, the assessment of the asset recoverable amount is made on each balance sheet date.**

The recoverable amount of an asset or a group of assets, generating cash proceeds, is the higher of the value in use and the fair value less any sale costs. Upon value in use measurement, the estimated cash flows are discounted at current value applying the discount rate prior to taxation, reporting the current market value of money in time and specific asset-related risks. For testing for impairment, the assets are grouped into groups of assets generating cash proceeds, whish is the smallest group of assets that may be identified and generate cash flows, independent of other assets or groups of assets to a great extent.

Impairment loss is recognised always if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the unit (to the extent such is available) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Loss from goodwill impairment is not subject to recovery. For other assets, impairment loss recognized in prior periods is measured as of each balance sheet date to establish whether such loss exists. Impairment loss is recovered so as the carrying amount of assets do not exceeds their carrying amount, net of impairment as if no impairment had been charged.

## Notes to the Financial Statements

### 3. Significant accounting policies, continued

**(g) *Employees' benefits***
***(i) Defined contribution plans***
A defined contribution plan is an income plan after leaving, where the legal or constructive obligation of the Company is limited up to the amount agreed to be deposited in a particular fund. The Government of Bulgaria bears the responsibility to ensure pensions under defined contribution plans. The expenses related to the Company's commitment to make contributions under the defined contribution plans are recognised in the income statement as they incur. A prepaid contribution is reported as an asset up to the amount that may be recovered as funds or decrease in future payments.

***(ii) Other long-term benefits***
The net payable due by the Company on long-term benefits of the employees other than pension plans includes amounts for future periods payable to employees for current and past length of service; this income is discounted to determine their present value and the received payable is reduced by the fair value of related assets. *The discount rate is the rate of return on securities with AA credit rating and maturity roughly corresponding to the Company's contractual liability deadline as of balance sheet date. The calculation is made on the basis of the credit estimable units method. Actuarial gains and loss are recognized in the income statement for the period of origination.*

In compliance with the Labour Code, upon termination of labour relations when an employee has acquired the right to retirement, the Company has to pay such employee compensation equal to the total of 2 gross salaries if he/she has worked for the employer for a period of up to 10 years of his/her length of service or 6 gross salaries if he/she has worked for the employer for over 10 years.

The Management estimates the total amount of potential payables to all employees as of balance sheet date based on an actuarial report. The total amount of charged payable and the basis of the payable estimation are disclosed in Note 22 to the Financial Statements.

***(iii) Short-term employees' benefits***
The Company recognizes the total amount of the non-discounted expenses on paid annual leaves expected to be paid to employees for their work over the preceding reporting period as liability.

**(h) Provisions**
A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the value of money in time and, where appropriate, other specific risks specific to the liability.

**(i) *Recognition of income and expenses***
Income and expenses are charged as incurred, regardless of cash proceeds and payments. They are reported in compliance with the requirement on their causative and value relation. Income is assessed at the fair valued of the remuneration received or to be received less the amount of all discounts made.

## Notes to the Financial Statements

**3. Significant accounting policies, continued**

**(i) *Recognition of income and expenses, continued***
Income from sales of services is recognized upon transfer of all material risks and benefits related to the goods ownership to the buyer.

Income from provided services is recognized in the income statement proportionately to the degree of service completion as of balance sheet date.

Basic income includes income from interest on invested funds, income from dividends, gains (loss) from sale of financial assets available for sale, changes in the fair value of financial assets reported at fair value when the changes are reported as gains or loss. Interest income is charged according to the effective interest rate method. Dividend income is recognized on the date of establishment of the Company’s right to receive the payment, which is the date after which shares does not give the right to receiving the last dividend in case of quoted/ tradable securities.

**(j) Financial income and expenses**
Net financial income / (expenses) represent income / expenses on loan interests and net gains (loss) on foreign currency transactions. All expenses on loan interests payable are recognized as gains or loss by using the effective interest rate method.

**(к) Profit Taxes**
Profit taxes for the year comprise current and deferred taxes. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted at the balance sheet date.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the current amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation or settlement applying the tax rates effective as of balance sheet date. The amount of deferred tax is based on the expected manner of realisation or settlement of carrying amount of assets and liabilities using tax rates enacted or expected to be enacted as of the balance sheet date.

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

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

## Notes to the Financial Statements

**3. Significant accounting policies, continued**
**(l) Basic earnings per share**
The Company provides data about the basic earnings per share or diluted earnings per share for its ordinary shares. The basic earnings per share are calculated by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares of the Company outstanding for the period. The diluted earnings per share are calculated by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares to reflect the effects from all potential diluted ordinary shares, including convertible bonds and share options provided to workers and employees.

**(m) International Financial Reporting Standards (IFRS) and the interpretations (IFRIC) approved for application by the European Commission which have not yet been enforced as of the balance date**
A number of new standards, changes in existing standards and interpretations have not yet been enforced as of 31 December 2008 and have not been applied in the preparation of these financial statements:

- Amendment to IFRS 2 *Share-based payment – vesting conditions and cancellation* (in force as of 1 January 2009). The amendments clarify the definition of vesting conditions introducing the concept of non- vesting conditions. These conditions will be reflected in the fair value at the date of settlement and the impossibility for implementation of the non-vesting conditions is generally considered cancellation. The amendment to IFRS 2 will become mandatory for the financial statements for 2009 with retrospective application. The Management holds that the amendment to IFRS 2 *will have no effect for the Company, since the Company has no plans related to share-based payments.*

- IFRS 8 Operating Segments (effective as of 1 January 2009). This standard requires disclosure of segments based on the components of the Company, which the Management observes upon operational decision-making. Operating segments are components of the Company, about which there is available independent financial information reviewed regularly by an executive in operational decision-making and in determining the manner of resources allocation and performance valuation. The Company holds, that *the standard will not have an effect on the financial results or the equity and will not change materially the presentation and disclosure of operating segments in the financial statements.*

- Revised IAS 1 *Presentation of Financial Statements* (in force for annual periods starting on or after 1 January 2009). The revised standards requires the information in the financial statements to be aggregated on the basis of shared characteristics. The standard introduces the term "comprehensive income statement”.
  The elements of the income statement and the components of the comprehensive income statement may be presented either as one comprehensive income statement (effectively combining the income statement and all changes in equity from transactions with non-owners), or as two separate statements (a separate income statement, following by a separate comprehensive income statement).

  The Company is considering whether to present one comprehensive income statement or two statements.

- *Revised IAS 23 – Borrowing costs excludes the possibility to report all borrowing costs as expenses upon origination and requires that companies capitalize borrowing costs directly related to the acquisition, creation or production of an eligible asset as part of the asset cost. The revised IAS 23 will become mandatory for the financial statement of the Company for 2009 and will involve changes in the accounting policy of the Company. As per the transitional provisions the Company will apply the revised IAS 23 for eligible assets for which the capitalisation of borrowing costs begins on or after the effective date.*

## Notes to the Financial Statements

**(m) International Financial Reporting Standards (IFRS) and the interpretations (IFRIC) approved for application by the European Commission which have not yet been enforced as of the balance date, continued**

- *IFRIC 13 – Customer Loyalty Programmes concerns the reporting of companies which have introduced or participate in customer loyalty programmes. This concerns customer loyalty programmes where customers may exchange accrued credits for rewards in the form of free-of-charge or discounted goods and services. These companies will have to set aside a part of the revenues from the initial sale as credits for rewards and recognise the revenues as income only after they have fulfilled their obligation. IFRIC 13 is applicable for the first time for the financial statement of the Company for 2009. The Management holds that it will not have a material effect on the financial statement.*

***The Management holds that it is important to note the following revised standards, new interpretations and amendments in existing standards, which as of the date of the balance participate in the general framework of IFRS approved by the International Accounting Standards Committee (IASC) which have not yet been approved for application by the European Commission and respectively have not been taken into consideration by the Company when preparing these financial statements:***

- 35 improvements to a total of 24 IFRS and IAS (2008)
- Revised IFRS 3 “Business combinations” (2008)
- Revised IFRS 1 – “First-time adoption of International Financial Reporting Standards”
- Amendments to IFRS 1 and IAS 27 concerning the cost of investments in subsidiaries, joint ventures or associates
- Amendments to IAS 32 and IAS 1 concerning options for sale of financial instruments and liquidation-related liabilities
- Amendments to IAS 39 concerning eligible hedged items and transitional provisions
- IFRIC 12 – “Service Concession Arrangements ”
- IFRIC 15 – “Agreements for the Construction of Real Estate ”
- IFRIC 16 – “Hedges of a Net Investment in a Foreign Operation”
- IFRIC 17 – “Distribution of Non-Cash Assets to Owner”

As of the date of preparation of the present financial statements the Company’s Management *holds, that* the future application of the indicated *revised standards, new interpretations and amendments in existing standards, when approved by the European Commission for application, would not have a material effect on the financial statements of the Company.*

### 4. Fair value measurement

Some accounting policies and disclosures require that fair values are determined for both the financial and non-financial assets and liabilities. ***Fair values have been determined for the purposes of assessment and/or disclosure based on the methods discussed herein below. Where applicable, supplementary information about the assumptions made in measurement of the fair values has been disclosed in the notes for the specific assets and liabilities.***

*Investments in equity and debt securities*

The fair values of financial assets determined for reporting at fair value through gains and loss and the investments held till maturity date and financial assets available for sale are measured on the basis of the buyer’s quoted price as of balance sheet date. The fair values of investments held till maturity date are determined for disclosing purposes only.

## Notes to the Financial Statements

### 4. Fair value measurement, continued

*Trade and other receivables*
The fair values of trade and other receivables are measured by ***determining the present value of future cash flows discounted by the market interest rate as of balance sheet date***.

*Non-derivative financial liabilities*
The fair values measured to be disclosed are determined on the basis of the present value of future cash flows related to principals and interests discounted by the market interest rate as of balance sheet date. The market interest rate applicable to financial leases is measured on the basis of similar lease agreements.

### 5. Financial risk management

The Company is exposed to the following risks resulting from the use of financial ***instruments***:

- ***Credit risk***
- ***Liquidity risk***
- ***Market risk***

***This note gives information on the Company's exposure to each of the aforementioned risks, the purposes of the Company, policies and processes related to risk assessment and management and management of the capital of the Company. Additional quantity disclosures are included in the Notes to the Consolidated Financial Statements.***

***The Board of Directors is responsible for identification and management of the risks to which the Company is exposed. This policy determines the limits for assuming risks by types, defined rules on risks control and compliance with established limits. This policy is subject to regular review to identify possible changes in the risk for the Company.***

### Credit risk

The credit risk, to which the Company is exposed, is the risk of possible loss in case a client or a party to financial instrument agreement fails to perform its contractual obligations.  The credit risk is mainly related to receivables from clients and investments in financial instruments.

*Receivables from clients*
The exposure to credit risk results from the specific characteristics of individual clients. This exposure may also depend on the risk of non-payment characteristic to the industry or markets where the Company operates. The credit policy of the Company provides for investigation of the solvency of each new client before offering standard terms of delivery and payment.

*Investments*
The Company limit its exposure to credit risk through investment only in liquid debt and corporate securities with the highest credit rating. The main portion of the investments are investments in businesses and companies where the Holding has control and may determine their management strategies. As to portfolio investments, the Company aims at investment in liquid securities. The Management expects the obligations under such agreements to be performed.

## Notes to the Financial Statements

### 5. Financial risk management, continued

*Guarantees*
The policy of the Company envisages issuance of financial guarantees only to subsidiaries following preliminary approval by the **Management and Supervisory Boards**.

**Liquidity risk**
Liquidity risk originates when the Company is not able to settle its liabilities within the agreed terms. The Company applies a method ensuring necessary liquid resources to settle its liabilities under usual or extraordinary conditions without ***suffering excessive loss or damaging its reputation***.

***The Company*** elaborates financial planning to cover its expenses and current payables for a period of 30 days, including settlement of financial liabilities; this planning excludes the potential effect of extraordinary circumstances that may not be foreseen under usual conditions.

**Market risk**
The market risk originates when ***the income or the value of the investments of the Company are affected by changes in market prices, exchange rates, interest rates or prices of equity instruments. The purpose of market risk management is the management and control of market risk within acceptable limits through return rate optimization.***

**Currency risk**
The Company is exposed to currency risk in case of purchase and/or sale and/or receiving loans in currencies other than the functional currency such as dollars, sterling, etc. The Company grants and receives loans in USD. The Company grants and receives loans in USD.

**Interest rate risk**
The Company manages its interest rate risk through signature of fixed-interest loan agreements.

***Capital management***
The policy of the Management is directed at maintenance of strong capital base so as to keep owners' trust and the market as a whole and ensure future business development conditions.

The Company is the subject of no contractual or regulatory capital requirements.

***The Company and its subsidiaries are imposed no external capital requirements.***

## Notes to the Financial Statements

### 6. Income from interests, dividends and investment transactions

| *In thousands of BGN* | **30 June 2009** | **30 June 2008** |
|---|---|---|
| Income from interests | 2,013 | 1,278 |
| Dividend income | 743 | 4,742 |
| | **2,756** | **6,020** |

The major portion of interest income is related to interest-bearing receivables from subsidiaries – granted loans amounting to the total of BGN 1,664 thousand, interests on deposits and settlement bank accounts amounting to the total of BGN 346 thousand as well as from other entities in respect of deferred payments on shares sale agreements amounting to the total of BGN 3 thousand.

There has been reported total dividend income of BGN 547 thousand allocated by Maritime Holding AD and BGN 196 thousand allocated by associated company Vartsila IHB DESIGN (the new name of VIK – Sandvik – IHB DESIGN).

### 7. Other operating income

| *In thousands of BGN* | **30 June 2009** | **30 June 2008** |
|---|---|---|
| **Income from sales of services:** | **178** | **91** |
| **Other** | **31** | |
| | **209** | **91** |

The income from sales of services are related to provided consultancy and other services to the companies in the Holding Group and outside of the Group, and the profit from the sale of an automobile amounting to BGN15 thousand and reintegrated provisions are included under another income classification.

### 8. Payroll costs

| *In thousands of BGN* | **30 June 2009** | **30 June 2008** |
|---|---|---|
| Salaries | **188** | **147** |
| Social security costs and other social payments | **32** | **27** |
| | **220** | **174** |

### 9. Other operating expenses

| *In thousands of BGN* | **30 June 2009** | **30 June 2008** |
|---|---|---|
| Depreciation and amortization | **14** | **28** |
| Costs of materials | **13** | **11** |
| Other operating expenses | **39** | **98** |
| | **66** | **137** |

## Notes to the Financial Statements

### 10. Net financial income/(expenses)

| *In thousands of BGN* | 30 June 2009 | 30 June 2009 |
|---|---|---|
| Net foreign currency gains | - | - |
| **Financial income** | - | - |
| Debenture loan interest expenses and other | (859) | - |
| Net foreign currency loss | (18) | (46) |
| Other expenses | (2) | (2) |
| **Financial expenses** | (879) | (48) |
| **Net financial income/(expenses)** | **(879)** | **(48)** |

The corresponding portion of the debenture loan interests was charged for the period – 01.01.2009 – 31.06.2009, the first payment of which is to be made on 29.04.2009.

### 11. Tax expenses

| *In thousands of BGN* | 30 June 2009 | 30 June 2008 |
|---|---|---|
| *Current tax expenses* | (96) | (31) |
| *Deferred profit tax* | - | - |
| | **(96)** | **(31)-** |

Current tax expenses include the accrual of profit tax at the rate of 10% (2007: 10%). In compliance with the provisions of the Law on Corporate Income Tax, the Company owes corporate tax of BGN 96 thousand for the period 1 January 2009 – 30 June 2009.

### 12. Non-current tangible and intangible assets

*Non-current tangible assets*

| *In thousands of BGN* | Computers and computer equipment | Transport vehicles | Fixtures and fittings and other | Total |
|---|---|---|---|---|
| ***Book value*** | | | | |
| Balance as of 1 January 2008 | 79 | 139 | 66 | 284 |
| Assets acquired | 6 | 39 | 18 | 63 |
| **Balance as of 31 December 2008** | 85 | 178 | 84 | 347 |
| Balance as of 1 January 2009 | 85 | 178 | 84 | 347 |
| Assets acquired | 2 | - | 4 | 6 |
| Assets written-off | - | (32) | - | (32) |
| **Balance as of 30 June 2009** | 87 | 146 | 88 | 321 |
| ***Depreciation and impairment loss*** | | | | |
| ***Balance as of 1 January 2008*** | 63 | 107 | 55 | 225 |
| Depreciation costs | 14 | 34 | 4 | 52 |
| **Balance as of 31 December 2008** | 77 | 141 | 59 | 277 |
| ***Balance as of January 2009*** | 77 | 141 | 59 | 277 |
| Depreciation costs | 6 | 6 | 2 | 14 |
| Depreciation of assets written-off | | (32) | | (32) |
| **Balance as of 30 June 2009** | 83 | 115 | 61 | 259 |
| ***Carrying amount*** | | | | |
| **Balance as of 1 January 2009** | **8** | **37** | **25** | **70** |
| **Balance as of 30 June 2009** | **4** | **31** | **27** | **62** |

## Notes to the Financial Statements

The Company has no limitations imposed in respect of the title of ownership of tangible non-current assets, and there are no assets pledged as collateral on liabilities or for other reasons.

***Intangible Assets***

As the non-current intangible assets held by the Company represent insignificant portion, no detailed note on their movement for the period has been prepared. The balance value of non-current intangible assets as of 30 June 2009 is BGN 7 thousand. (2008: BGN 9 thousand. The depreciation charged for the period amounts to BGN 1 thousand.

### 13. Investments in subsidiaries

Investments held by the Company as of 30 June 2009 and 31 December 2008 are as follows:

| | **30 June 2009** | | **31 December 2008** | |
|---|---|---|---|---|
| ***In thousands of BGN*** | **Amount of participation** | **Percentage of participation** | **Amount of participation** | **Percentage of participation** |
| ZMM Bulgaria Holding AD | 7,885 | 99.998 | 7,885 | 99.998 |
| Privat Engineering AD | 6,850 | 90.331 | 6,850 | 90,331 |
| Dockyard Port Bourgas AD | 2,277 | 98.240 | 2,277 | 98.240 |
| Augusta Mebel AD | 823 | 97.860 | 823 | 97.860 |
| Bulyard AD | 25,591 | 61.500 | 25,591 | 61.500 |
| Maritime Holding AD | 400 | 61.000 | 400 | 61.000 |
| International Industrial Holding Bulgaria AD | 130 | 100.000 | 130 | 100.000 |
| KLVK AD | 5,044 | 99.51 | 5,044 | 99,51 |
| Hydropower Bulgaria AD | 34 | 67.000 | 34 | 67.000 |
| | **49,033** | | **49,033** | |

The Company holds 2 shares in the capital of Leyarmach AD, which is controlled by the ZMM Bulgaria Holding AD Group.

In the current period, the Company additionally purchased 24 shares of the capital of Dockyard Port Bourgas AD at the total value of BGN 72. No other acquisitions have been made for the period.

### 14. Investments in associates

| | **30 June 2009** | | **31 December 2008** | |
|---|---|---|---|---|
| ***In thousands of BGN*** | **Amount of participation** | **Percentage of participation** | **Amount of participation** | **Percentage of participation** |
| Dounav Tours AD | 2,761 | 48.44 | 2,762 | 48.45 |
| Odessoss PBM AD | 1,584 | 30.00 | 1,584 | 30.00 |
| Vartsila IHB DESIGN | 125 | 50.00 | 125 | 50.00 |
| | **4,470** | | **4,471** | |

55 shares of the capital of Dounav Tours AD were sold to Union Tours EOOD in order to even the amount of shares held by the two companies - Industrial Holding Bulgaria Plc. and Union Tours EOOD, on the basis of intentions for signature of a contractual agreement for joint control over Dounav Tours AD.

## Notes to the Financial Statements

### 14. Investments in associates, continued

### 15. Long-term loans of related parties

| *In thousands of BGN* | 31 March 2009 | 31 December 2008 |
|---|---|---|
| Privat Engineering AD | 46,085 | 26,670 |
| KLVK AD | 3,394 | 2,441 |
| Bulyard Shipbuilding Industry AD | 14,669 | 699 |
| | **64,148** | **29,810** |

The loan to Privat Engineering AD was granted to finance the building of ships Kavruna, Martsiana and Emona ordered by companies within the Group of Industrial Holding Bulgaria Plc., and the loan to KLVK AD was granted to finance the construction of two new Future 56 ships, 56000DWT, at Bulyard Shipbuilding Industry EAD. The loans granted to Bulyard Shipbuilding Industry EAD have an interest rate of 8% on an annual basis and the Management intends to fully or partially deduct the payable advance contributions for the construction of ship Karvuna /construction number 458 which is being built for IHB Group/ from the receivables under these loans.

### 17. Trade and other receivables

| *In thousands of BGN* | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Receivables on shares sale agreements | 90 | 103 |
| Receivables from clients | - | - |
| Receivables impairment | (17) | (33) |
| Refundable taxes | - | 19 |
| Prepaid services | - | 19 |
| Other receivables (interest on deposits) | 98 | 158 |
| | **171** | **266** |

### 18. Receivables from related parties

| *In thousands of BGN* | 30 June 2009 | 31 December 2008 |
|---|---|---|
| *Receivables on loans granted, including due interests* | | |
| Privat Engineering AD | 154 | 7,915 |
| Leyarmach AD | 112 | 110 |
| KLVK AD | - | 901 |
| Odessoss PBM AD | - | 9 |
| Elprom ZEM AD | 98 | |
| Bulyard Shipbuilding Industry AD | 260 | 2,764 |
| Augusta Mebel AD | 8 | |
| Emona Ltd. | 85 | - |
| | **717** | **11,699** |
| *Services rendered* | | |
| Augusta Mebel AD | 9 | 51 |
| Bulyard Shipbuilding Industry AD | 12 | - |
| Dockyard Port Bourgas AD | 16 | 3 |
| Elprom ZEM AD | 7 | - |
| Other | 1 | - |
| | **45** | **54** |
| *Dividend receivables* | | |

| | | |
|---|---|---|
| ZMM Bulgaria Holding AD | - | 539 |
| Dounav Tours AD | - | 726 |
| Vartsila IHB DESIGN | 48 | - |
| | **48** | 1,265 |
| | **810** | **12,964** |

**19. Cash and cash equivalents**

| *In thousands of BGN* | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Cash in hand | 16 | 13 |
| Cash at banks | 85 | 299 |
| Deposits with banks | 19,327 | 39,977 |
| | **19,428** | **40,289** |

Cash in BGN is valued at its nominal value, and cash in foreign currency - at the closing exchange rate of BNB at the end of the reporting period. Foreign currency gains and loss are reported as current income, respectively expenses. A part of the cash in deposit accounts is blocked (see Note 26)

20. Share Capital

The capital of the Company comprises 43,756,118 dematerialised registered voting shares of BGN 1 nominal value each.

The share capital has been subscribed at its face value and is fully paid. There are no preference shares or bearer shares.

Shareholders in Industrial Holding Bulgaria Plc. who hold over 5% of the capital of the Company as of 30.06.2009:

| ***Shareholder*** | **Number of shares** | **30 June 2009** | **31 December 2008** |
|---|---|---|---|
| Venside Enterprises AD | 13,472,245 | 30.79% | 30.79% |
| DZH AD | 2,440,655 | 5.58% | 5.58% |
| BULLS AD | 5,863,673 | 13,40% | 13.22% |
| General Stock Investment | - | - | 5.35% |
| Other | 21,979,545 | 50,23% | 45.06% |
| | **43,756,118** | **100.00%** | **100.00%** |

**20 (a) Basic earnings per share**

The calculation of basic earnings per share as of 30 June 2009 is based on the net profit amounting to BGN 1,619 thousand (30 June 2008: profit of BGN 5,570 thousand) and the weighted average number of ordinary shares available for the period ended 30 June 2009 of 43,756 thousand (31 June 2008: BGN 43,756 thousand). Calculation is made as follows:

| ***In thousands of BGN*** | **30 June 2009** | **30 June 2008** |
|---|---|---|
| Net profit for the period | 1,619 | 5 ,570 |
| Net profit attributable to holders of ordinary shares | **1,619** | **5,570** |

| ***In thousands of shares*** | **30 June 2009** | **01 January 2008** |
|---|---|---|
| Number of issued ordinary shares as of 1 January | 43,756 | 43,756 |
| Number of ordinary shares as of 30 June | **43,756** | **43,756** |
| Weighted average number of shares as of 30 June | **43,756** | **4,756** |

In 2007 the Company's capital was increased two times. In June an increase of 5,250,805 shares was registered through conversion of debentures into shares and in December through the issuance of a new issue of shares - 17,502,078 shares with par value of BGN 1 and issue value of BGN 2.40. As a result of the fact that all rights were exercised, the capital of the Company increased from BGN 26,254 thousand to BGN 43,756 thousand and a premium reserve was formed amounting to BGN 24,503 thousand.

**21. Long-term payables**

| *In thousands of BGN* | 30 June 2009 | 31 December 2008 |
|---|---|---|
| ***Debenture loan*** | **21,650** | 21,650 |
| ***Retirement compensation provisions*** | **3** | 3 |
| | **21,653** | **21,653** |

By Decision No 20081104114240 of the Commercial Register, there has been published an announcement on **signed debenture loan** of IHB Plc under the following terms and conditions:

· ISIN code: **BG2100024087**

· **Total nominal value** (debenture loan amount): **BGN 21,649,600** (twenty-one million six hundred forty-nine thousand and six hundred Bulgarian leva) divided into **216.496** (two hundred sixteen thousand four hundred and ninety-six) dematerialized interest-bearing convertible freely transferable unsecured shares, each having nominal value of **BGN 100** (one hundred leva);

· Debenture loan maturity: 3 /three/ years (36 months of 1.095 days), as of the issue date;

· Initial maturity date: 29 October 2008

· Interest rate: **8.00%** (eight per cent) per year;

· Interest payment period: 6-month;

· Conversion ratio: 12, determining conversion price of BGN 8.(33);

· Conversion: On the issue maturity date and interim conversion of the date of the fourth interest payment;

· Payment dates: Principal payment – one-time payment on maturity date, interest payment dates – *29 April 2009, 29 October 2009, 29 April 2010, 29 October 2010, 29 April 2011 and 29 October 2011; · Bank servicing debenture loan payments:*

· Bank servicing debenture loan payments: Allianz Bank Bulgaria AD in compliance with the provisions of Ordinance No 8 concerning securities of the Central Depository.

In case of preservation of the stock exchange crisis and impossible recovery of share prices over the next 3 years, potentially the convertible bonds amounting to BGN 21,649,600 issued by IHB Plc in 2008 with maturity date 29 October 2011 would not be converted fully at the announced conversion price of BGN 8.33.

The Company has estimated retirement compensations in compliance with the provisions of the Labour Code and IAS 19 based on an actuarial report.
On 29 April 2009 the first
interest payment under the debenture loan was made.

**22. Trade and other payables**

| *In thousands of BGN* | 30 June 2009 | 31 December 2008 |
|---|---|---|
| Payables on rights sold to shareholders | 19,421 | 19,797 |

| | | |
|---|---|---|
| Payable interests on debenture loan | 299 | 303 |
| Payables to suppliers | 11 | 19 |
| Payables to the personnel | - | 3 |
| | **19,731** | **20,122** |

## 24. Financial instruments

**Credit risk**

The book value of financial assets represents the maximal credit exposure. The maximal credit exposure as of balance sheet date is as follows:

| *In thousands of BGN* | **30 June 2009** | **31 December 2008** |
|---|---|---|
| ***Cash and cash equivalents*** | ***19,428*** | ***40,276*** |
| ***Trade and other receivables*** | ***171*** | ***228*** |
| Receivables from related parties | ***64,958*** | ***42,774*** |
| | ***84,557*** | ***83,278*** |

The maximal credit exposure as to trade and other receivables by geographical regions as of balance sheet date is as follows:

| *In thousands of BGN* | **30 June 2009** | **31 December 2008** |
|---|---|---|
| Trade and other receivables from third parties registered in Bulgaria | ***171*** | ***228*** |
| Receivables from Group's companies registered in Bulgaria | ***64,873*** | ***42,774*** |
| | ***65,044*** | ***43,002*** |

**Company's receivables impairment loss**

**Temporary structure of the Company's trade receivables as of balance sheet date:**

| | **30 June 2009** | | **31 December 2008** | |
|---|---|---|---|---|
| | ***In thousands of BGN*** | ***In thousands of BGN*** | ***In thousands of BGN*** | ***In thousands of BGN*** |
| | **Gross amount** | **Impairment** | **Gross amount** | **Impairment** |
| Non-payable | ***65,043*** | ***-*** | ***43,002*** | ***-*** |
| With period of 0 up to 180 days | ***18*** | ***(17)*** | ***19*** | ***(19)*** |
| With period of 180 up to 360 days | | | ***14*** | ***(14)*** |
| Over 360 days | - | - | - | - |
| | ***65,061*** | ***(17)*** | ***43,035*** | ***(33)*** |

Trade receivables impairment movement over the year:

| | **30 June 2009** | **31 December 2008** |
|---|---|---|
| | ***In thousands of BGN*** | ***In thousands of BGN*** |
| Impairment at the beginning of the year | (33) | (59) |
| Impairment charged over the period | - | (33) |
| Uncollectible receivables, written-off | - | 59 |
| Reintegrated | ***15*** | |
| Impairment at the end of the year | **(17)** | **(33)** |

**Liquidity risk**
**30 June 2009**

| *In thousands of BGN* | **Book value** | **Contractual cash flows** | **Up to 6 months** | **6-12 months** | **up to 5 years** |
|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | |
| Trade and other payables | ***19,771*** | ***19,771*** | ***19,771*** | **-** | **-** |
| Debenture loan and interests | ***21,949*** | ***25,982*** | ***868*** | ***864*** | ***24,250*** |
| | ***44,720*** | ***45,753*** | ***20,639*** | ***864*** | ***24,250*** |

**Liquidity** *risk, continued*
**31 December 2008**

| *In thousands of BGN* | **Book value** | **Contractual cash flows** | **Up to 6 months** | **2 months** | 1 -2 years |
|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | |
| Trade and other payables | ***19,816*** | ***19,816*** | ***19,816*** | **-** | **-** |
| Debenture loan and interests | ***21953*** | ***26,846*** | ***864*** | ***868*** | ***25,114*** |
| | ***41,769*** | ***46,662*** | ***20,680*** | ***868*** | ***25,114*** |

**Currency risk**
The Group's exposure to currency risk as of *30 June 2009 is as follows:*

**Currency risk**
The Group's exposure to currency risk as of *30 June 2009 is as follows:*

| | **BGN** | **EUR** | ***USD*** | **BGN** | **EUR** | ***USD*** |
|---|---|---|---|---|---|---|
| *In thousands of BGN* | **31 March 2009** | | | ***31 December 2008*** | | |
| Trade and other receivables | 171 | - | - | 228 | - | - |
| Dividend receivables from related parties | 48 | - | - | 1,264 | - | - |
| Receivables on loans granted to related parties | 12,910 | 50,306 | 1,694 | 10,417 | ***29,676*** | ***1,416*** |
| Cash and cash equivalents | 156 | 19,272 | - | 2,498 | ***37,772*** | 19 |
| Other payables to related parties | - | - | - | - | - | - |
| Trade and other payables | ***(41,384)*** | - | - | *(41,769 )* | - | - |
| | (28,099) | 69,578 | 1,694 | (27,361 | 67,448 | 1,435 |

Financial instruments denominated in EUR are not exposed to currency risk due to the fixed BGN/EUR exchange rate.

.

Significant exchange rates effective over the period*:*

| | ***Average applicable exchange rate for the period*** | | ***Exchange rate as of financial statements date*** | |
|---|---|---|---|---|
| | **30 June 2009** | **30 June 2008** | **30 June 2009** | **31 December 2008** |
| USD | ***-*** | ***1,2791*** | ***1,38378*** | ***1,3873*** |

***Sensitivity analysis***

A rise of 10% in the BGN/USD exchange rate as of 30 June would increase (decrease) the capital and gains and loss by the amounts given below. The analysis is made on the basis of the assumption that all other variables, interest rates in particular, are constant.

**30 June 2009**

| *In thousands of BGN* | **In the equity** | **In the income statement** |
|---|---|---|
| USD | - | (169) |
| | - | **(169)** |

**31 December 2008**

| *In thousands of BGN* | **In the equity** | **In the income statement** |
|---|---|---|
| USD | - | 144 |
| | - | **144** |

*A fall of 10% of the exchange rate of BGN and the currency given above as of 31 December would result in the same amounts but with reverse effect provided that all other variables are assumed to be constant.*

**Interest rate risk**

The following table shows the book values of financial instruments by interest rates:

| **In thousands of BGN** | **30 June 2009** | **31 December 2008** |
|---|---|---|
| ***Fixed-income instruments*** | | |
| Financial assets | ***84,541*** | ***81,175*** |
| Financial liabilities | (21,650) | (21,650) |
| | ***62,891*** | **59,525** |
| ***Floating-income instruments*** | | |
| Financial assets | - | - |
| Financial liabilities | - | - |
| | - | - |

**Analysis of fixed-interest financial instruments sensitivity**

The Company reports no fixed-interest financial assets and liabilities at fair value through gains and loss. **Therefore, a change in the interest rates as of balance sheet date would not affect the income and equity statements.**

## Notes to the Financial Statements

### 25. Related party transactions

No unusual terms and conditions or departures from the market conditions exist as to third party transactions executed during the period.

| *In thousands of BGN* | Type of relation | *30 June 2009* |
|---|---|---|
| *Dividend income* | | |
| - Maritime Holding AD | **Subsidiary** | **547** |
| - Vartsila IHB DESIGN | **Associate** | **196** |
| *Income from interests* | | |
| - Privat Engineering AD | **Subsidiary** | **1,013** |
| - Leyarmach AD | **Indirect control** | **4** |
| - KLVK AD | ***Subsidiary*** | **67** |
| - Bulyard Shipbuilding Industry AD | **Subsidiary** | **577** |
| Dounav Tours AD | **Associate** | **2** |
| *Income from sales of services:* | | |
| - Elprom ZEM AD | **Indirect control** | **131** |
| - Bulyard Shipbuilding Industry AD | **Subsidiary** | **12** |
| - Dockyard Port Bourgas AD | **Subsidiary** | **16** |
| - Augusta Mebel AD | **Subsidiary** | **20** |
| *Loans granted to:* | | |
| - Dounav Tours AD | **Associate** | **196** |
| - Bulyard Shipbuilding Industry AD | **Indirect control** | **20,560** |
| - Augusta Mebel AD | **Subsidiary** | **20** |
| - KLVK AD | **Subsidiary** | **20** |
| - Elprom ZEM AD | **Indirect control** | **98** |
| - Privat Engineering AD | **Subsidiary** | **2,003** |
| *Loans repaid by:* | | |
| - Augusta Mebel AD | **Subsidiary** | **12** |
| - Bulyard Shipbuilding Industry AD | **Indirect control** | **688** |
| - Dounav Tours AD | **Associate** | **196** |

Pursuant to cession contracts signed between Industrial Holding Bulgaria Plc. and Privat Engineering AD IHB transfers receivables from loans amounting to BGN 8,653 thousand from Bulyard Shipbuilding Industry EAD to Privat Engineering AD.

## Notes to the Financial Statements

### 25. Related party transactions, continued

| *In thousands of BGN* | Type of relation | 30 June 2008 |
|---|---|---|
| *Dividend income* | | |
| - Maritime Holding AD | **Subsidiary** | **549** |
| - ZMM Bulgaria Holding AD | **Subsidiary** | **4,194** |
| *Income from interests* | | |
| - Privat Engineering AD | **Subsidiary** | **366** |
| - Leyarmach AD | **Indirect control** | **1** |
| - KLVK AD | **Subsidiary** | **302** |
| - Bulyard Shipbuilding Industry | **Indirect control** | **42** |
| - Dounav Tours AD | **Associate** | **11** |
| - Odessoss PBM AD | **Associate** | **11** |
| Income from sales of services: | | |
| - Elprom ZEM AD | **Indirect control** | **17** |
| - Augusta Mebel AD | **Subsidiary** | **20** |
| - Bulyard Shipbuilding Industry | **Indirect control** | **40** |
| Loans granted to: | | |
| - Privat Engineering AD | **Subsidiary** | **21,450** |
| - KLVK AD | **Subsidiary** | **19,370** |
| - Dounav Tours AD | **Associate** | **978** |
| - Bulyard Shipbuilding Industry AD | **Indirect control** | **1,440** |
| - Odessoss PBM AD | **Associate** | **540** |
| - Leyarmach AD | **Indirect control** | **200** |
| *Loans repaid by:* | | |
| - Privat Engineering AD | **Subsidiary** | **850** |
| - Leyarmach AD | **Subsidiary** | **60** |
| - Dounav Tours AD | **Associate** | **978** |
| - KLVK AD | **Subsidiary** | **1,769** |
| Loans repaid to: | | |
| - Privat Engineering AD | **Subsidiary** | **218** |

### 26. Contingent liabilities

Pursuant to a contract between Industrial Holding Bulgaria Plc. and DSK Bank EAD, the latter provided bank guarantees amounting to of EUR 286 thousand as security of obligations of Elprom ZEM to a client. In November 2006, a contract for credit limit for issuance of bank guarantees and working capital financing of BGN 4,500 thousand, secured by registered pledge of the business of Dockyard Port Bourgas AD - a subsidiary of the Holding, was signed. As of 30 June 2009, bank guarantees amounting to of BGN 2,889 thousand were issued and 6 letters of credit at the amount of BGN 1,238 thousand were issued to Bulyard Shipbuilding Industry AD.

As of 30.06.2009 pursuant to signed contracts for financial securitization between Allianz Bank Bulgaria AD and Industrial Holding Bulgaria Plc., the latter has provided financial security through blocked cash in deposit accounts amounting to EUR 3,028, in order to guarantee the financial obligations of Bulyard Shipbuilding Industry EAD to the bank under opened letters of credit to suppliers.

Industrial Holding Bulgaria Plc. has provided a corporate security in the form of surety to Bulyard Shipbuilding Industry EAD, Varna pursuant to a Bank Loan Agreement under the provisions of credit undertaking in the form of bank guarantees and documented letters of credit between Bulyard Shipbuilding Industry EAD, Varna and Unicredit Bulbank AD, Sofia, following these key parameters:

a/ Objective: credit undertaking in the form of three bank guarantees for reimbursement of advance payments due under the conditions of a contract for construction of a ship with construction number 103 and all annexes to it, signed between Bulyard Shipbuilding Industry EAD, Varna and Diler Shipping and Trading Inc., Tersane Caddesi Dilerhan № 96, Persembe Pazari, Karakoy, Istanbul, Turkey with beneficiary of the bank guarantees - Diler Shipping and Trading Inc., Turkey;
b/ Amounting of the credit limit: up to USD 27,589,060 /twenty-seven million, five hundred and eighty-nine thousand and sixty US dollars/;
c/ term for issuance of the bank guarantees: by 03 October 2001.
Against the provision of corporate security Bulyard Shipbuilding Industry EAD, Varna will pay to Industrial Holding Bulgaria Plc. a remuneration amounting to 1% annually on the actual amount of the provided corporate guarantee, Bulyard Shipbuilding Industry EAD, Varna will provide acceptable material security – contractual mortgages on real estate at a total value of no less than 120% /one hundred and twenty percent / of the value of the provided corporate security.
The deal was made on the basis of the Decision of the General Assembly of the shareholders of Industrial Holding Bulgaria Plc. held on 07 May 2009

**27. Post balance sheet events**

No significant events have occurred to exert a material influence on the provided information.