ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ

Industrial Holding Bulgaria PLC

Interim consolidated financial statements

For the period ended 30 June 2006

Consolidated income statement

For the six-month period ended 30 June 2006

In thousands of BGN	Note	2006 30 June	2005 30 June
Revenue	1	52,406	32,111
Other operating revenue	2	2,434	12,495
Movements in work in progress	3	1,388	2,954
Cost of materials		(26,785)	(15,771)
Hired services		(7,406)	(6,983)
Depreciation and amortisation		(1,871)	(1,581)
Personnel expenses	4	(12,265)	(9,677)
Cost of assets sold		(304)	(5,834)
Other operating expenses		(686)	(1,060)
Operating profit/ (loss)		**6,911**	**6,654**
Net financing income/(expenses)	5	770	6,729)
Profit / (loss) of associates	6	26	(584)
Profit / (loss) before tax		7,707	12,799
Tax expense	7	(1,058)	(820)
Profit/(loss) after tax		6,649	11,979
Minority interest		1,843	1,069
Net profit / (loss) for the year		4,806	10,910
Basic earnings per share (BGN)	19	0,228	0,517

The Income statement should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 21.

Daneta Zheleva
Executive Director

Toshka Vasileva
Chief Accountant

Consolidated balance sheet

As at 30 June 2006

In thousands of BGN	**Note**	**2006 30 June**	**2005 31 December**
Assets			
Property, plant and equipment	8	53,670	53,334
Non-current intangible assets	9	575	183
Goodwill	9	6,507	5,520
Investments in subsidiaries	10	38	-
Investments in associates	11	7,132	7,706
Financial assets available for sale	12	115	242
Long-term receivables	16	3,000	943
Total non-current assets		71,037	67,928
Inventories	14	36,119	30,204
Trade and other receivables	15	36,396	34,460
Financial assets held for trading	13	1,310	1,310
Cash and cash equivalents	17	23,733	21,864
Total current assets		97,558	87,838
Total assets		168,595	155,766
Equity			
Share capital	18	21,003	21,003
Reserves		14,910	13,735
Retained earnings (net)		51,625	47,321
Total equity and reserves		87,538	82,059
Minority interest		21,158	21,303
Liabilities			
Loans	20	942	503
Debenture loan	20	5,238	5,233
Trade and other long-term payables	22	1,075	24
Provisions	21	2,514	2,686
Deferred tax liabilities	23	1,558	1,348
Total long-term liabilities		11,327	9,794
Loans	20	1,426	2,052
Other payables	22	46,910	40,322
Provisions	21	236	236
Total current liabilities		48,572	42,610
Total equity and liabilities		168,595	155,766

The Balance sheet should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 21.

Daneta Zheleva
Executive Director

Toshka Vasileva
Chief Accountant

Consolidated statement of cash flows
For the period ended 30 June 2006

In thousands of BGN	**2006 30 June**	**2005 30 June**
Operating activities		
Proceeds from customers	65,180	44,989
Payments to suppliers	(54,891)	(28,024)
Remuneration related payments	(11,627)	(9,865)
Taxes paid (refunded) (net	(4,136)	(964)
Interest received (paid)	322	77
Foreign exchange gain (loss)	(555)	485
Other proceeds (payments)	(3,818)	463
Net cash flow from operating activities	(9,525)	7,161
Investing activities		
Purchases/ sales of property, plant and equipment (net)	13,138	6,984
Purchases of investments	(527	(10,201)
Proceeds from sale of investments	-	330
Proceeds from sale of financial assets held for trading	173	5,819
Net cash flow from investing activities	12,784	2,932
Financing activities		
Proceeds from loans and issue of debt	1,977	1,702
Loans repaid	(2.680)	(1,631)
Dividends paid	(267)	(181)
Loan interest, charges and commission fees paid	(347)	(353)
Other proceeds (payments)	(73)	(207)
Net cash flow used in financing activities	(1,390)	(670)
Increase/(decrease) in cash and cash equivalents	1,869	9,423
Cash and cash equivalents at the beginning of the period	21,864	9,256
Cash and cash equivalents at 30 June	**23,733**	**18,679**

The Statement of cash flows should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 21.

Daneta Zheleva
Executive Director

Toshka Vasileva
Chief Accountant

Consolidated statement of changes in equity

For the period ended 30 June 2006

In thousands of BGN	Note	Share capital	Additional and legal reserves	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2005		21,003	4,915	6,982	14,417	47,317
Recognised profit for the period		-	-	-	10,910	10,910
Statutory reserves set aside		-	354	-	(354)	-
Payment of dividend		-	-		(103)	(103)
Additional reserves set aside		-	136	-	(136)	-
Dividend from the 1997 profit written off			1,323			1,323
Change in accounting policies					2,921	2,921
Other movements		-	48	(6)	(199)	(157)
Balance at 30 June 2005		21,003	6,776	6,979	27,456	62,211
Balance at 1 January 2006		21,003	6,785	6,950	47,321	82,059
Movements in opening balances due to						
Change in accounting policies					521	4,177
Adjusted balance at 1 January 2006		21,003	6,785	6,950	47,842	82,580
Recognised profit for the current year		-	-	-	4,806	29, 898
Statutory reserves set aside		-	978	-	(978)	-
Additional reserves set aside		-	197	-	(197)	-
Other movements		-		-	152	152
Balance at 30 June 2006		21,003	7,960	6,950	51,625	87,538

The Statement of changes in equity should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 21.

Daneta Zheleva
Executive Director

Toshka Vasileva
Chief Accountant

Significant accounting policies

Industrial Holding Bulgaria PLC (the Company or the Holding) is a public limited company having its seat in Sofia, Bulgaria and address of management at Sofia 1000, 47, Vasil Levski blvd. The consolidated financial statements of the Company for the period ended 31 December 2005 comprise the statements of the Company and its subsidiaries (together referred to as the "Group"), as well as the interests of the Group in associates.

The operations of the Group include production and trading of heavy machinery, shipbuilding, ship repairs and transportation, furniture production, real estate transactions, maintenance and repair and other services. In 2004 the Group expanded the scope of its operations in the area of port services and accompanying activities from / to ships and land transport vehicles.

Industrial Holding Bulgaria, as well as some of the subsidiaries are listed at Bulgarian Stock Exchange - Sofia.

(a) Statement of compliance

(b) Basis of preparation

The financial statements are presented in Bulgarian lev (BGN), rounded to the nearest thousand. Historical cost has been used as basis for preparation with the exception of land, property, plant and equipment, which have been presented at revalued amount less the accumulated depreciation and impairment losses, and financial assets held for trading and financial assets available for sale, which have been valued at their fair value.

The accounting policies have been consistently applied by Group enterprises and are consistent to those used in the previous year .
The accompanying financial statements should be read in relation to the annual consolidated financial statements of the Group for 2005.

(c) Comparative information

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

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are the enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

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(ii) Associates

Associates are enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share in the total realised gains and losses of associates on equity accounted basis from the date that significant influence commences until the date that significant influence ceases. When the Group's share of the losses exceeds the carrying amount of the investment in the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Balances and transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Parent interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Transactions in foreign currency are recorded in Bulgarian levs at the exchange rate effective on the date of the transaction. At the balance sheet date monetary assets and liabilities denominated in foreign currency have been translated to Bulgarian levs applying the foreign exchange rate on that date. Foreign currency gains and losses arising as a result of translation are taken to the Income statement. The Group has not performed transactions with non-monetary assets and liabilities denominated in foreign currency.

(f) Property, plant and equipment

(i) Own assets

Newly acquired property, plant and equipment are reported at cost, which includes the purchase price and costs incurred to commission the asset. The costs of assets constructed by the company includes materials and direct labour. Where one tangible fixed asset contains material components with different useful lives, these components have been reported as separate assets. Tangible fixed assets in progress include materials, hired services, direct labour and the respective portion of overheads.

(ii) Leased assets

Leases, which transfer the significant risks and rewards of ownership to the Group, are classified as finance leases. Finance lease property plant and equipment are reported at the lower of their fair value and the present value of the minimum lease payments upon conclusion of the lease contract, less the accumulated depreciation and impairment loss (see accounting policies l).

(iii) Subsequent expenses

Subsequent expenses incurred to replace a component of a tangible fixed asset reported separately are capitalised. Other subsequent expenses are capitalised only if they increase the future economic benefits of the respective asset. All other costs are recognised in the income statement in the period they are incurred.

(iv) Depreciation

Depreciation is charged to the Income statement applying the straight-line depreciation method over the useful life of the tangible fixed assets. Land is not depreciated.

The estimated useful life is as follows:

- buildings 7 - 50 years
- machines and equipment 4 – 20 years
- transport vehicles 2 –10 years
- fixtures and fittings 5 – 10 years

Assets are depreciation as of the month following the date of acquisition, and internally generated assets are depreciated as of the month following the date when these assets were commissioned.

(g) Intangible fixed assets

(i) Positive goodwill

Positive goodwill arising upon acquisition is the excess of the acquisition costs over the fair value of the acquired identifiable assets and liabilities. Positive goodwill is presented at cost less the accumulated impairment loss (see accounting policies l). Positive goodwill is not amortised any longer, but it is tested for impairment every year. In respect of associates the carrying amount of the positive goodwill is included in the carrying amount of investment in an associate.

(ii) Negative goodwill

The negative goodwill arising on acquisition represents the excess of the fair value of the acquired identifiable assets and liabilities over the acquisition costs. As of 1 January 2005 negative goodwill is recognised directly to the Income statement as incurred. Prior to 2005 any negative goodwill related to expected future losses and costs, established in the acquisition plan, which can be reliably measured, but has not yet been recognised, has been recognised in the income statement when future losses and costs have been recognised. Any unamortised negative goodwill as at 31 December 2004 has been written off against the retained earnings as at 1 January 2005 (see note 33).

(g) Intangible fixed assets

Other intangible assets acquired by the Group are presented at cost less the accumulated amortisation (see below) and impairment losses (see accounting policies l). Costs on internally generated goodwill and trademarks are reported in the Income statement as incurred.

(iv) Subsequent expenses

Subsequent expenses related to intangible assets are capitalised only when they lead to increase in the future economic benefits of the asset they relate to. All other costs are recognised as incurred.

(v) Amortisation

The amortisation of intangible assets is charged to the income statement based on the straight-line amortisation method depending on their estimated useful lives. Intangible assets are amortised as of the date when they are available for use.

The estimated useful lives are as follows:

- Patents and trademarks 7 years
- Software 5 years

(h) Trade and other receivables

Trade and other receivables are presented at amortised cost less the impairment loss less any unrecoverable amounts. Such unrecoverable amounts are presented as impairment loss based on the estimated recoverable amounts of trade receivables.

(i) Inventories

Inventories are reported at the lower of cost and the net realisable value. The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete the production cycle and costs, required to make the sale.

Cost of inventories is reported at the average weighted cost for materials and work in progress. In case of finished goods cost also includes labour costs, social security contributions and depreciation. These costs are allocated on the production on the basis of the normal production capacity.

The share of indirect costs included in production costs is determined based on the direct labour.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and cash at banks. For the purposes of the statement of cash flows, bank overdrafts payable on demand form integral part of the cash flows managed by the Group and are included as cash and cash equivalents.

(k) Financial instruments

(i) Classification

Financial instruments held for trading are instruments which the Group holds to gain short-term profits.

Assets held to maturity are financial assets having fixed or easily identifiable payments and fixed maturity, which the Group intends and is able to hold to maturity.

Assets available for sale are financial assets which are not held for trading or to maturity respectively.

(ii) Reporting

The Group reports financial assets held for trading and financial assets available for sale on the date of trading. Gains and losses from changes in the fair value of the assets are taken to the Income statement.

Investments held for trading or sale are recognised / derecognised by the Group on the date when the Group undertakes a binding commitment to purchase / sell the investments. Investments held to maturity are recognised / derecognised on the date they are transferred to / from the Group.

(iii) Valuation

Investments held for trading are classified as current assets and are reported at fair value with any gain and loss is taken to the Income statement. When the Group intends to hold investments to maturity, such investments are reported at cost, less the amortisation and impairment losses. Other investments classified as available for sale are reported as non-current and are reported at fair value with the resultant gains or losses being taken to the Income statement. When fair value cannot be measured reliably the cost of investments is used or the latest valued amounts.

(iv) Fair value definition principles

The fair value of financial instruments is determined based on their market price at the balance sheet date, without deducting transaction costs. If no quoted market price is available the fair value of the instrument is determined using pricing models or discounted cash flow calculation techniques.

(l) Impairment

The carrying amount of the Company's assets, with the exception of inventories and deferred tax assets, are reviewed at the balance sheet date to determine whether events or circumstances exist that indicate impairment. If such events or circumstances exist an estimate is made as to the recoverable amount of the asset. Impairment losses are recognised whenever the carrying amount of an asset or a cash generating unit exceeds the asset's recoverable amount. Impairment losses are recognised in the Income statement unless there is a revaluation reserve set aside for this asset. Any impairment of a revalued asset is treated as a decrease in the revaluation reserve to the extent the impairment loss does not exceed the revaluation reserve set aside for the asset itself.

(i) Measurement of recoverable amount

The recoverable amount of the Group's investments held to maturity and receivables is measured at the present value of the estimated future cash flows discounted applying the effective interest rate for the respective asset. Short-term receivables are not discounted.

The recoverable amount of other assets is the higher of their net selling price and their value in use. Upon measuring value in use future cash flows are discounted to their present value by applying a pre-tax discount rate, reflecting the current assessments of the market, time value of money and the asset-specific risks. For an asset which does not generate cash independently the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversal of impartment losses

Impairment losses for investments held to maturity or a receivable are reversed when subsequent increase of the recoverable amount of the receivable can be objectively related to an event occurring following the recognition of the impairment.

Impairment loss related to positive goodwill is not reversed, except for in the cases when the loss resulted from a specific external event of unordinary nature, which is not expected to reoccur and the increase in the recoverable amount is related to adjusting the effect of such specific event.

Impairment losses for investments held to maturity or a receivable are reversed when subsequent increase of the recoverable amount of the receivable can be objectively related to an event occurring following the recognition of the impairment.

Impairment losses are reversed only to the carrying amount of the asset, not exceeding the carrying amount, less the accumulated depreciation, had the impairment loss not been recognised.

(m) Share capital and reserves

The capital of the Company is presented at historical cost as at the date of registration.

Additional and statutory reserves include those of the Parent and the share hold of reserves set aside after the date of acquisition of reserves of the subsidiaries.

Revaluation reserves have been set aside as at the date of revaluation of property, plant and equipment.

(n) Loans

Interest bearing loans are initially reported at origination cost, less the loan granting costs. Upon subsequent measurement following initial recognition such loans are reported at amortised cost with any difference between the initial amount and amount at maturity is taken to the income statement over the term of the loan based on the effective interest rate.

(o) Retirement benefits obligations

The Group has legal obligation to pay compensations to the employees upon retirement in accordance with the requirements of IAS 19 Employee Benefits. Assessment is made on the base of 5-year period after the balance sheet date, applying 7% discount factor per annum.

(p) Provisions

When the Group has a legal or constructive obligation as a result of past events and it is probable that the settlement of the obligation will require an outflow of resources and economic benefits, a provision is set aside in the balance sheet. When the effect is material provisions are determined by discounting the estimated future cash flows applying a pre-tax interest rate, reflecting the current time value of money. Where appropriate other risks specific to the liability are also taken into account.

(q) Trade and other payables

Trade and other payables are measured at amortised cost.

(r) Revenue

(i) Good sold and services rendered

Revenue from sales of finished goods and products are recognised when the significant risks and benefits of the ownership are transferred to the buyer. Revenue from services rendered are taken to the Income statement pro-rata to the stage of completion at the balance sheet date. The stage of completion is measured as a ratio of the portion of contractual costs incurred on the work to date to the total costs envisaged under the contract. No revenue is recognised where material uncertainty exists in respect of collection of the remuneration, the transaction related costs and the possible return of goods.

(ii) Construction contracts

When the outcome of a construction contract can be reliably measured, income and costs are recognised in the Income statement pro-rata to the stage of completion of the contract. The stage of completion is determined by reference to the work completed. Any loss expected to be incurred under the contract is taken to the Income statement immediately.

(s) *Net financing expenses*

Net financing income / (expense) includes interest due on loans, measured by applying the effective interest rate; interests payable on finance leases; foreign exchange gains / (losses), as well as bank charges which are taken to the Income statement. Interest income is reported as it originates, taking into account the effective yield of the asset.

All loan agreement – related interest expenses and other expenses are reported in the same period as part of the net financing income / (expense). The finance lease component representing interest expense is taken to the Income statement based on the effective interest rate.

(t) Income taxes

Income tax expense / income include current and deferred taxes. Income taxes are recognised in the income statement unless related to items, which are taken directly to equity.

Current tax is the estimated tax payment on the taxable profit for the year applying the tax rates in effect at the balance sheet date.

Deferred tax is measured by applying the liability method, to temporary differences between the current value of assets and liabilities for accounting purposes and for tax purposes. The following temporary differences are not taken into account: differences resulting from the initial recording of assets and liabilities which do not affect the accounting or tax profit, as well as differences related to investments in subsidiaries to the extent it is expected that these will not reverse in the foreseeable future. The amount of deferred tax is based on the estimated carrying amount of the asset or the liability, applying tax rate in effect at the balance sheet date.

Deferred tax asset is recognised only to the extent it is probable that future taxable profit will be available against which the unused tax asset can be utilised. The deferred tax asset is reduced to the extent where it is no longer probable that future economic benefit will be realised.

The additional tax resulting from dividend distribution is reported at the time the liability to pay the dividend arises.

(s) Segments

A segment is an identifiable component of the Group, providing products or services (business segment) or providing products or services in a certain economic area (geographic segment), which is subject to risks and benefits other that those of the remaining segments.

1. Revenue

In thousands of BGN	2006 30 June	2005 30 June
Sale of production	42,507	23,227
including shipbuilding	20,437	3,654
Sale of services	9,889	8,869
including ship repairs	5,244	4,623
Sale of goods	10	15
	52,406	32,111

2. Other operating revenue

In thousands of BGN		2006 30 June	2005 30 June
Sale of fixed assets	**2a**	256	11,148
Other revenue		2,178	1,347
		2,434	12,495

2.a

	2006	2005
Revenue from sale of fixed assets	256	11,148
Carrying amount of assets sold	-	5,530
Net gain from sale of fixed assets	256	5,618

3. Increase / (decrease) of work in progress

In thousands of BGN	2006 30 June	2005 30 June
Machstroy AD	(385)	732
Leyarmach AD	36	29
ZMM Sliven AD	(22)	44
Augusta Mebel AD	7	(70)
Dockyard Port Bourgas AD	11	(22)
ZMM Nova Zagora AD	(73)	62
Elprom ZEM AD	181	62
Bulyard Shipbuilding Industry AD	1,543	2,117
Bulgarian Ship Register	90	-
	1,388	2,954

4. Personnel expenses

In thousands of BGN	2006 30 June	2005 30 June
Wages and salaries	9,629	7,173
Social security contributions	2,636	2,504
	12,265	9,677

5. Net financing income / (expense)

In thousands of BGN	2006 30 June	2005 30 June
Interest expense	(261)	(361)
Interest income	635	90
Net foreign exchange gain/(loss)	622	32
Gain / (loss) financial asset transactions	7	7,053
Other financial profit / (loss), net	(233)	(85)
	770	6,729

6 . Profit / (loss) of associates

In thousands of BGN	2006 30 June	2005 30 June
Dunav Tours AD	26	(584)
	-	-
	26	(584)

7. Tax expense

	2006 30 June	2005 30 June
Current corporate tax expense	968	820
Deferred income tax expense / (income)	90	-
	1,058	820

Current tax expenses are accrued at 15%, applied to the tax base and represent summarised Group result, as in accordance with the Bulgarian legislation each company is an independent reporting entity.

8. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Other fixed assets	Assets under constructio n	Total
Book value					
Balance at 1 January 2005	33,366	12,006	2,329	1,218	48,919
Acquired in business combination	6,554	14,393	330	76	21,353
Additions	362	953	295	4,067	5,677
Disposals	(10,386)	(815)	(167)	(469)	(11,837)
Transfers	1,311	2,780	19	(4,110)	-
Balance at 31 December 2005	31,207	29,317	2,806	782	64,112
Depreciation and impairment losses					
Balance at 1 January 2005	1,604	3,697	1,196	-	6,497
Acquired in business combination	139	1,700	19		1,858
Depreciation charge for the year	692	1,809	291	-	2,792
Depreciation of assets written off	(41)	(264)	(64)	-	(369)
Balance at 31 December 2005	2,394	6,942	1,442	-	10,778

Book value					
Balance at 1 January 2006	31,207	29,317	2,806	782	64,112
Additions	147	422	335	1,538	2,442
Disposals	(167)	(311)	(43)		(521)
Transfers		1,335		(1,335)	-
Balance at 30 June 2006	31,187	30,763	3,098	984	66,033
Depreciation and impairment losses					
Balance at 1 January 2006	2,394	6,942	1,442	-	10,778
Depreciation charge for the year	418	1,213	190	-	1,821
Depreciation of assets written off	(11)	(189)	(37)	-	(237)
Balance at 30 June 2006	2,801	7,966	1,595	-	12,362
Carrying amount					
At 1 January 2005	28,813	22,375	1,364	782	53,334
At 31 December 2005	28,386	22,797	1,503	984	53,670

Some of the property, plant and equipment are pledged as collateral for the Group's bank loans (see also note 20 Loans).

In relation to collateral on contract securing the issuance of bank guarantees for ship building, first mortgage on land and buildings and first specific pledge on property, plant and equipment owned by Bulyard Shipbuilding Industry AD are registered at the total amount of BGN 46,504 thousand, which is accepted by the bank on the basis of valuation from a licensed appraiser.

9. Intangible fixed assets

In thousands of BGN	**Patents and trademarks**	**Software**	**Other intangible assets**	**Total**
Carrying amount				
At 1 January 2006	111	31	41	183
At 31 December 2005	87	346	142	575

The amortisation charge for the intangible assets for the period ending 30 June 2006 amounts to BGN 47 thousand (2005: BGN 36 thousand). Due to the fact that the intangible non-current assets owned by the Group are an immaterial part, no detailed note has been prepared on their movement.

(i) Goodwill

In thousands of BGN	**Positive goodwill**	**Negative goodwill**	**Total**
Balance at 1 January 2005	855	(2,915)	(2,060)
Appreciation through business combinations	4,665	-	4,665
Negative goodwill recognised in the opening balance of retained earnings	-	2,915	2,915
Balance at 31 December 2005	5,520	-	5,520
Appreciation through business combination	987	-	987
Balance at 30 June 2006	6,507	-	6,507

In thousands of BGN	**Positive goodwill**	**Negative goodwill**	**Total**

As of 1 January 2005 the Group applies the requirement of IFRS 3 Business Combinations in reporting acquisitions and in reporting investments in associates for the purposes of the consolidated financial statements.
As a result the amortisation of positive goodwill has stopped, with the latter being tested for impairment at the end of the reporting period.
Positive goodwill resulting from the acquisition of 10% of the capital of Bulyard AD has occurred during the period.

10. Investments in subsidiaries

During the first quarter of 2006 the subsidiary ZMM Bulgaria Holding Ad established the joint-stock company Bulcari AD with a capital of BGN 2000 thousand for the purpose of participation in the privatisation of Balkancar Sredets AD.
In February 2006 the subsidiary Private Engineering AD established its own two subsidiaries - Emona Shipping Ltd. and Marciana Shipping Ltd., registered in Malta, which have concluded an agreement to build two multi-purpose /MPC/ 9800 ton ships in Bulyard Shipbuilding Industry AD. The investment in these two companies - BGN 38 thousand has not been eliminated in these financial statements.
In April 2006 Industrial Holding Bulgaria AD acquired 2 401 898 ordinary registered voting shares, representing 10% of the capital of Bulyard AD. Dockyard Odesos AD terminated its holdings in the capital of Bulyard AD, and the Holding’s interest reached 61,50 %.

11. Investments in associates

The Group possesses the following investments in associates:

	Country	**Ownership**	
		2006	**2005**
Dunav Tours AD	Bulgaria	48,39%	45,43%
Chimremontstroy AD	Bulgaria	-	25,86%
Istrum Travel	Cyprus	50,00%	50,00%
Odesos PMB AD	Bulgaria	30,00%	30,00%

In May this year Industrial Holding Bulgaria Plc sold its 430 489 shares representing 25,86 % of the capital of Chimremontstroy AD. The net result of the transaction is nil.

The movements in investments in associates can be analysed as follows:

In thousands of BGN	**2006**	**2005**
Dunav Tours	**30 June**	**31 December**
At 1 January	5,157	3,178
Adjustment in accordance with IFRS 3	-	1,262
Share in the appreciation of net assets	26	468
Goodwill reported upon acquisition of 2,96%	-	234
Additionally acquired	-	15
Investment amount	5,183	5,157

Chimremontstroy AD	**2006**	**2005**
	30 June	**31 December**
At 1 January	600	746
Impairment		(146)
Sale	(600)	-
Investment amount	0	600

Istrum Travel	**2006**	**2005**
	30 June	**31 December**
Investment	379	999
Share in the appreciation of net assets	-	875
Dividends paid during the period	-	(1,495)
Investment amount	379	379

Odesos PMB AD	**2005**	**2004**
Investment	1,585	1,585
Share in the appreciation of net assets	(15)	(15)
Investment amount	1,570	1,570

Total investments in associates as at the reporting period	7,132	7,706

12. Other investments

In thousands of BGN	**% ownership**	**2006**	**% ownership**	**2005**
ELPO AD	17.99%	-	17.99%	121
Transbalkan Oil Pipeline Bulgaria AD	14,29%	107	14,29%	107
Meteko AD	-	7	0.67%	7
Other	-	1	-	7
		115		242

In February 2006 all 39 349 shares in the capital of ELPO AD held by the Group were sold. The sale of shares amounts to BGN 128 thousand, with a profit of BGN 7 thousand being reported.

13 Financial assets held for trading

In thousands of BGN	**2006**	**2005**
Shares at purchase cost	-	1,516
Impairment	-	(206)
Amount at the reporting period	**1,310**	1,310

The shares have been valued at the amount they are traded at Bulgarian Stock Exchange as at 31 December 2005 (BGN 28.0 per share). As at 30 June 2006 their listed price is BGN 29,75.

14. Inventories

In thousands of BGN	**Note**	**2006**	**2005**
Raw materials, materials and consumables		18,443	14,728
Work in progress	14a	15,684	12,868
Finished goods		1,997	2,459
Merchandise		15	149
		36,119	30,204

14.a. Work in progress

Work in progress includes

In thousands of BGN	**2006**	**2005**
Work in progress in shipbuilding	9,995	7,170
Work in progress in ship repairs	352	483
Work in progress in machine building	5,318	5,215
	15,665	12,868

15. Trade and other receivables

In thousands of BGN	**2006**	**2005**
Trade receivables	28,853	27,221
Court receivables	300	298
Taxes receivable	1,736	1,454
Other receivables	4,260	218
Prepayments and deferred expenses	1,247	5,269
	36,396	34,460

16. Long-term receivables

In thousands of BGN	**2006**	**2005**
Mak - Gabrovo	210	210
Chimremonstroy Engineering AD	743	313
Receivables from related parties	1,538	-
Other long-term receivables	509	420
	3,000	943

17. Cash and cash equivalents

In thousands of BGN	**2006**	**2005**
Cash at banks	15,453	14,338
Cash on hand	92	137
Blocked cash	8,188	7,389
Cash and cash equivalents in the balance sheet	23,733	21,864

Blocked cash amounting to BGN 2,662 thousand represent collateral of letters of credit for current deliveries, opened in favour of suppliers in relation to shipbuilding and ship repairs activities. TO secure bank guarantees issued in favour of third parties BGN 5,433 thousand have been blocked. BGN 93 thousand are blocked in relation to advance received for financing of innovation project, which cannot be utilised until final completion of the stage of work.

18. Share capital

The share capital is stated at nominal value as per the court registration. At 30 June 2006 the share capital comprises 21,003,235 ordinary shares (2003: 21,003,235) with a par value of BGN 1.

Additional and statutory reserves

Additional and statutory reserves include reserves formed by setting aside 10% of the profit in accordance with the requirements of the Commercial Act, as well as additional reserves set aside as a result of profit distribution. They also include additional and statutory reserves of the Parent, as well as the share held in the reserves of subsidiaries after the acquisition date.

Revaluation reserve

Revaluation reserve has been set aside as a result of revaluation of property, plant and equipment and is reduced with the deferred tax liabilities arising on the revaluation.

19 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 is based on the net profit attributable to the ordinary shareholders, amounting to BGN 4,806 thousand (2005: BGN 10,910 thousand) and the average weighted number of ordinary shares outstanding in the period ended 30 June 2006, of 21,003,235 (2005: 21,003,235). The calculation is as follows:

Net profit attributable to the ordinary shareholders

In thousands of BGN	**2006**	**2005**
Net profit for the year	4,806	10,910
Net profit attributable to the ordinary shareholders	4,806	10,910

Average weighted number of ordinary shares outstanding

Thousands of shares	**2006**	**2005**
Ordinary shares issued at 1 January 2006	21,003	21,003
Ordinary shares at 30 June 2006	21,003	21,003
Average weighted number of shares at 30 June 2006	21,003	21,003

20 Loans

This note provides information on the contractual terms and conditions of the loans of the Group.

In thousands of BGN		2006	2006
Non-current liabilities			
Secured bank loans		942	503
		942	503
Current liabilities			
Current portion of secured bank loans		1,426	2,052
		1,426	2,052
Debenture loan			
Non-current portion		5,233	5,233
Current portion – interest payables	22	155	158
		5,393	5,391

Terms and conditions and maturity

In thousands of BGN	Total	1 year or less	more than 1 year
Secured bank loans:			
EUR 180 thousand – monthly-LIBOR+5,5%	250	100	150
EUR 225 thousand –3- month EURIBOR+5,3%	440	293	147
BGN 75 thousand – floating approximately 9,28%	75	75	-
EUR 100 thousand –3- month EURIBOR+3,2%	196	196	-
USD 400 thousand – floating approximately 8%	347	347	
BGN 25 thousand – BIR +7%	25	25	-
EUR 450 thousand – 3-month -EURIBOR+2,5%	880	235	645
BGN 155 thousand – floating approximately 10,50%	155	155	-
	2,368	1,426	942

Bank loans have been secured with land and buildings with a carrying amount of BGN 1,447 thousand, machinery and equipment with a carrying amount of BGN 2,641 thousand. Furthermore Dockyard Port-Bourgas AD was pledged as a business.
Pledge of finished goods at the amount of BGN 171 thousand and trade receivables amounting to BGN 120 thousand have been pledged in favour of the creditor banks. Promissory note amounting to BGN 1,688 thousand has been issued.

21. Provisions

In thousands of BGN	Retirement compensations	Warranties	Lawsuits	Total
Balance at 1 January 2006	576	236	2,110	2,922
Provisions set aside during the year	8	-	-	8
Provisions reversed (paid)	(77)	(103)	-	(180)
Balance at 30 June 2006	507	133	2,110	2,750

Retirement compensations

The Group has made an estimate of the due retirement compensations in accordance with the Labour Code and the Collective Labour Contracts on a company by company basis, where such exist. . The estimate at 30 June 2006 amounts to BGN 507 thousands and this amount is included in the Non-current liabilities section of the balance sheet.

Warranties

The warranty provision is related mainly to engines sold by Elprom ZEM and ship repair services provided by Port Bourgas AD. The provision calculations are made on assessments based of warranty historic data, related to similar products or services.

Lawsuits

The estimated expenses on provisions amounting to BGN 2,110 thousand are based on detailed information as to lawsuits initiated against Elprom ZEM AD at the amount of BGN 103 thousand and a provision of BGN 2,007 thousand, which includes loan repayment liabilities (principal and interest), in accordance with the Law on Settlement of Non-Performing Loans (ZUNK) of the subsidiary Machstroy AD. Machstroy AD has initiated lawsuits against the State Receivables Collection Agency and the outcome of the lawsuits is not clear at the time these financial statements have been prepared.

22 Other payables

In thousands of BGN		**2006**	**2005**
Trade payables		40,737	10,435
Payables to personnel		1,665	1,897
Social security contributions		682	616
Payables to the budget		1,276	4,176
Prepayments received		1,856	22,429
Current portion of long-term loan	20	155	158
Other		539	611
		46,910	40,322

22. Trade and other long-term payables

In thousands of BGN	**2006**	**2005**
Prepayments from customers	1,050	-
Other long-term payables	25	24
	1,075	137

Other long-term payables represent payables on financing received on the grounds of a concluded agreement with Labour Conditions Fund. The financing is intended for the reconstruction and modernisation of some of the facilities in a subsidiary company.

23 Deferred tax payables

Deferred tax payables arise on:

- revaluation reserve from revaluation to fair value of property, plant and equipment
- provisions for retirement compensations
- impairment of trade and other receivables
- adjustments due to changes in accounting policies.

24. Group companies

Significant subsidiaries

	Country of registration	Percentage of ownership 2006
Privatengineering AD	Bulgaria	100.00
Augusta Mebel AD	Bulgaria	97.86
Hydropower AD	Bulgaria	67.00
ZMM Bulgaria Holding AD	Bulgaria	100.00
ZMM Sliven AD	Bulgaria	92.89
ZMM Nova Zagora AD	Bulgaria	91.10
Leyarmach AD	Bulgaria	100.00
Machstroy AD	Bulgaria	80.81
Elprom ZEM AD	Bulgaria	82.19
Dockyard Port – Bourgas AD	Bulgaria	91.72
KLVK AD	Bulgaria	100.00
International Industrial Holding	Switzerland	100.00
Emona Shipping Ltd	Malta	100.00
Marciana Shipping Ltd	Malta	100.00
Maritime Holding AD	Bulgaria	61.00
Bulgarian Ship Register AD	Bulgaria	61.00
Bulyard AD	Bulgaria	61,50
Bulyard Shipbuilding Industry AD	Bulgaria	46,13

25. Events after the balance sheet date

No material events have occurred that might have significant effect on the interim financial statements.

26. Contingent liabilities

Bank guarantees

On 26 July 2005 a Group company has concluded an agreement with two Bulgarian banks for syndicated revolving loan, securing the issuance of bank guarantees. The loan limit amounts to approximately EUR 12,500 thousand and USD 10,900 thousand. The repayment deadline is 25 July 2009.

The limit is secured with a first mortgage on land and buildings and first specific pledge on machinery and equipment at the total amount of BGN 46,504 thousand, which as disclosed in note 8 is accepted by the banks on the grounds of valuation made by a licensed appraiser.

At 30 June 2006 there are 9 guarantees issued within the limit at the total amount of EUR 12 323 and USD 11 011 thousand (approximate BGN equivalent – BGN 41 058 thousand).

Bank guarantees have also been secured with promissory notes avalled by Bulyard AD.

The Group has concluded an agreement with a Bulgarian bank for the issuance of bank guarantees amounting to EUR 671 thousand to secure the payables of one of the subsidiaries to a third party. The issued bank guarantees have been secured with a second specific pledge of a business, which is one of the Group subsidiaries.

At the annual general assembly of the shareholders of Industrial Holding Bulgaria held on 15 June 2006 the management was authorised to conclude transaction falling within the provisions of art. 236, para 2, item 3 of the Commercial code. The transactions are related to securing corporate guarantees /enter in debt/, which Industrial Holding Bulgaria Plc will issue in favour of the customers of Bulyard Shipbuilding Industry AD under contracts to build ships. The guarantees will not exceed EUR 10,630,000 and USD 8,869,770 and will be secured with first mortgage on real estates and specific pledges on machinery and equipment owned by Bulyard Shipbuilding Industry AD.