

**Industrial Holding Bulgaria PLC**

**Interim Consolidated Financial Statements**

**for the period ended 31 December 2005**

INDUSTRIAL HOLDING BULGARIA PLC  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Consolidated income statement**

<i>In thousands of BGN</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
Revenue	1	74,726	47,988
Other operating revenue	2	<u>25,144</u>	<u>1,543</u>
		<b>99,870</b>	<b>49,531</b>
Increase/(Decrease) in WIP		10,468	1,571
Cost of materials		(34,454)	(22,844)
Hired services		(15,385)	(7,030)
Personnel expenses	3	(21,933)	(11,617)
Depreciation and amortisation		(3,315)	(1,666)
Carrying amount of assets sold		(1,248)	(293)
Other operating expenses	4	<u>(2,433)</u>	<u>(1,284)</u>
<b>Net operating profit</b>		<b>31,570</b>	<b>6,368</b>
Net financing income/(expenses)	5	<u>5,797</u>	<u>(609)</u>
Profit/(loss) from associates		<u>475</u>	<u>2,938</u>
<b>Profit before tax</b>		<b>37,842</b>	<b>8,697</b>
Income tax expense	6	<u>(4,631)</u>	<u>(803)</u>
<b>Profit/(loss) after tax</b>		<b>33,211</b>	<b>7,894</b>
<b>Minority interest</b>		<b>3,468</b>	<b>232</b>
<b>Net Group profit for the period</b>		<b>29,743</b>	<b>7,662</b>
Basic earnings per share (BGN)		1,41	0,36

The notes form an integral part of these financial statements

*Angel Katsarov*

*Executive Director*

*Prepared by:*

*Toshka Vasileva*

INDUSTRIAL HOLDING BULGARIA PLC  
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**Consolidated balance sheet**

<i>In thousands of BGN</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	53,354	42,422
Intangible assets	8	188	202
Goodwill	9	5,526	(2,060)
Investments in associates	10	6,998	11,029
Other investments	11	250	1,662
Long-term receivables	12	987	1,282
Investment properties		49	-
<b>Total non-current assets</b>		<b>67,352</b>	<b>54,537</b>
<b>Current assets</b>			
Inventories	13	28,470	11,225
Trade and other receivables	14	34,269	4,126
Financial assets held for trading	15	1,310	
Cash and cash equivalents		20,583	8,103
<b>Total current assets</b>		<b>84,632</b>	<b>23,454</b>
<b>Total assets</b>		<b>151,984</b>	<b>77,991</b>
<b>Equity</b>			
Capital and reserves			
Share capital	16	21,003	21,003
Reserves		13,755	11,897
Retained earnings (net)		45,790	14,417
<b>Total equity and reserves</b>		<b>80,548</b>	<b>47,317</b>
Minority interest		21,718	6,293
<b>Non-current liabilities</b>			
Long-term loans	17(a)	5,786	7,308
Trade and other payables	18	161	137
Deferred tax liabilities	19	1,520	1,541
Provisions	21	1,375	1,378
<b>Other non-current liabilities</b>		<b>8,842</b>	<b>10,364</b>
<b>Current liabilities</b>			
Bank loans	17(б)	1,986	2,990
Other payables	20	38,502	10,854
Provisions	21	388	173
<b>Total current liabilities</b>		<b>40,876</b>	<b>14,017</b>
<b>Total equity and liabilities</b>		<b>151,984</b>	<b>77,991</b>

Prepared by: *T. Vasileva*

*Angel Katsarov*

*Executive Director*

**Consolidated statement of cash flows**

*In thousands of BGN*

	<b>2005</b>	<b>2004</b>
<b>Operating activities</b>		
Proceeds from customers	102,118	54,489
Payments to suppliers	(70,579)	(37,021)
Remuneration related payments	(20,726)	(9,706)
Taxes paid (refunded) (net)	(1,462)	(401)
Interest received (paid)	(206)	68
Foreign exchange gain (loss)	657	(558)
Other proceeds (payments)	2,031	730
<i>Net cash flow from operating activities</i>	11,832	4,601
<b>Investing activities</b>		
Purchases of property, plant and equipment (net)	8,709	(5,611)
Purchases of investments	(10,478)	(7,962)
Proceeds from sale of investments	330	1,622
Proceeds from sale of financial assets held for trading	6,632	-
Dividends received	31	1,596
Other proceeds (payments)	(77)	-
<i>Net cash flow from (used in) investing activities</i>	5,147	(10,355)
<b>Financing activities</b>		
Proceeds from loans and issue of debt	1,510	10,866
Loans repaid	(4,760)	(1,892)
Dividends paid	(181)	172
Loan interest, charges and commission fees paid	(639)	(118)
Other proceeds (payments)	(429)	(199)
<i>Net cash flow from (used in) financing activities</i>	(4,499)	8,485
Increase/(decrease) in cash and cash equivalents	12,480	2,731
Cash and cash equivalents at 1 January	8,103	5,393
<b>Cash and cash equivalents at 31 December 2005</b>	<b>20,583</b>	<b>8,103</b>

Prepared by: *T. Vasileva*

*Angel Katsarov*

*Executive Director*

## Consolidated statement of changes in equity

For the 12-month period ended 31 December 2005

<i>In thousands of BGN</i>	Share capital	Additional and legal reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2004	21,003	4,852	6,558	6,866	39,279
Recognised profit for the period	-	-	-	7,662	7,662
Revaluation surplus of assets written off	-	-	-	-1	-
Allocation of 2003 profit to reserves	-	223	-	(223)	-
Transfer of reserves related to discontinued operations	-	-	(149)	149	-
Change of tax rate	-	-	447	-	447
Other movements	-	(11)	(23)	(37)	(71)
Balance at 31 December 2004	21,003	4,915	6,982	14,417	47,317
Minority interest					6,293
Changes in opening balances due to 2004 adjustments				(541)	
Changes in accounting policy				2,921	
Restatement on acquisition				(101)	
Balance at 1 January 2005 restated	21,003	4,915	6,982	16,696	49,596
Recognised profit for the period	-	-	-	29,743	29,051
Dividend on 1997 profit written off	-	1,323	-	-	1,323
Allocation of 2004 profit to reserves	-	490	-	(490)	-
Allocation to dividend	-	-	-	(103)	(103)
Covering of losses	-	(17)	-	17	-
Other movements	-	77	(16)	(73)	(12)
Balance at 31 December 2005	21,003	6,789	6,966	45,790	80,548
Minority interest					21,718

*Prepared by:*

*Angel Katsarov*

*T. Vasileva*

*Executive Director*

Notes to the Interim Consolidated Financial Statements

**Significant accounting policies**

Industrial Holding Bulgaria PLC (the Company) is a public limited company domiciled in Bulgaria. 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").

The operations of the Group include production and trading of heavy machinery, shipbuilding and transportation, construction, maintenance and repair and other services.

In the current year the Group acquired control over Bulyard AD – a company holding 75 % of the capital of Bulyard Shipbuilding Industry AD, whose core activity is shipbuilding and construction of all types of vessels, ship repairs and reconstruction of ships, purchase and sale of ships and other vessels under construction and fully completed ones.

**(a) Statement of compliance**

The consolidated financial statements for the period ended 31 December 2005 have been prepared in all material respects in accordance with International Financial Reporting Standards (IFRS), adopted by the European Commission. In accordance with the Accountancy Law effective 1 January 2005 the International Financial Reporting Standards (IFRS) adopted by the European Commission are effective on the territory of the Republic of Bulgaria. The latter should be translated officially to Bulgarian language, adopted by the Council of Ministers of the Republic of Bulgaria and promulgated in the State Gazette (SG). At the date the accompanying financial statements have been prepared IFRS adopted by the European Commission have not been adopted by the Council of Ministers and have not been promulgated in the SG in Bulgarian language. However, these financial statements have been prepared in accordance with IFRS adopted by the European Union, applicable for 2005, as they are published in the Official Journal of the European Union in English language.

The Company's management has reviewed and compared the numeric information, representation and disclosures had these financial statements been prepared in accordance with the International Accounting Standards approved for implementation in Bulgaria by virtue of Decree of the Council of Ministers (CM) No 21 dated 4 February 2003 and promulgated in the State Gazette (SG), issue 13 dated 2003. The differences established, which related to the amounts of positive and negative goodwill are presented in note 24.

These financial statements are interim and are not final.

**(b) Basis of preparation**

These interim financial statements at 31 December 2005 are consolidated financial statements.

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 property, plant and equipment, which have been presented at revalued amount less the accumulated depreciation and impairment losses.

The accounting policies have been consistently applied by Group enterprises and are consistent to those used in the previous year except for the application of IFRS 3 Business combinations, setting out the reporting of positive and negative goodwill arising from acquisitions.

**(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.

These financial statements should be considered in direct relation to the Group's 2004 annual financial statements.

Notes to the Interim Consolidated Financial Statements

**(d) Basis of consolidation**

*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.

*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 recognised 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.

*Transactions eliminated on consolidation*

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

**(e) Acquisition and disposal of subsidiaries**

*Acquisition*

During the first quarter of 2005 the Group acquired additional 12,24% of the capital of ZMM Sliven PLC, thus its interest in this enterprise reached 92,89%. Another 4,04% of the capital of the subsidiary ZMM Nova Zagora PLC were acquired, thus the interest of the Group in this enterprise reached 91,10%. The Group's share in Machstroy PLC, Troyan has also increased to 80,81% through the acquisition of 5,03% of the capital of the enterprise. The shares in these enterprises have been acquired as a result of trade offers made.

Through the acquisition of further 356 shares of Dockyard Port Bourgas AD the share of the Group in the capital of the enterprise reached 91,70%. In August 2005 the subsidiary ZMM Bulgaria Holding AD acquired 34 % of the capital of Leyarmach AD through the purchase of 884 thousand shares, thus the Group's control over this enterprise is now 100%.

During the first quarter of 2005 the Company established the joint-stock company Danube River Shipping, with equity amounting to BGN 50 thousand. The enterprise was established for the purpose of participation in the privatisation of Bulgarian River Shipping, but subsequently the intentions of the Holding's management have changed and during the last quarter this enterprise was disposed of.

In February Electromachinery Holding AD sold to IH Bulgaria PLC 2 762 183 of its own shares, representing 11,5 % of the capital of Bulyard AD. In April Dockyard Odesos PLC sold to Industrial Holding Bulgaria PLC 3 602 847 of its own shares, representing 15% of the capital of Bulyard AD. Through these transactions the Group, by acquiring 51,50% of the capital of the latter, has become the majority shareholder and acquired control over Bulyard Shipbuilding Industry AD, Varna.

## INDUSTRIAL HOLDING BULGARIA PLC

### Notes to the Interim Consolidated Financial Statements

#### *Disposals*

During the reporting period the Holding disposed of 76 038 shares of the capital of Maritime Holding AD (29% of the enterprise's capital).

Build 2000 EOOD, with a capital of BGN 5 thousand, which did not have active business operations, has also been disposed of.

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the Interim Consolidated Financial Statements

### 1. Revenue

*In thousands of BGN*

	<b>2005</b>	<b>2004</b>
	31 December	31 December
Sale of production	47,430	35,566
including shipbuilding	7,327	-
Sale of services	25,173	11,929
including ship repairs	15,043	2,831
Sale of goods and materials	2,123	493
	<u>74,726</u>	<u>47,988</u>

### 2. Other operating revenue

*In thousands of BGN*

	<b>2005</b>	<b>2004</b>
	31 December	31 December
Amortisation of negative goodwill, net	-	600
Negative goodwill arising on acquisition	1,204	-
Net gain on disposal of property, plant and equipment	22,524	254
Other revenue	1,416	689
	<u>25,144</u>	<u>1,543</u>

Other revenue represent mainly disposals of property, plant and equipment. In 2005 the Group disposed of the property purchased by KLVK AD in 2004 – land and buildings in Shkorpilovtzi Resort Complex with a carrying amount of BGN 3,430 thousand and selling price, less the costs to realise the sale and other costs – BGN 6,647 thousand; land, building and equipment Apriltzi Workshop, owned by Machstroy PLC, with a carrying amount of BGN 285 thousand and selling price – BGN 469 thousand; land, buildings and equipment located on the territory of Bulyard Shipbuilding Industry AD with a carrying amount of BGN 1,890 thousand and selling price of BGN 4,200 thousand.

In December 2005 the Group disposed of the purchased property in the area Budzhaka, Sozopol for the amount of BGN 23,470 thousand. Land with a carrying amount of BGN 5,053 thousand has been written off against this disposal and other costs at the total amount of BGN 1,718 thousand have been reported.

### 3. Personnel expenses

*In thousands of BGN*

	<b>2005</b>	<b>2004</b>
	31 December	31 December
Wages and salaries	16,269	8,546
Compulsory social security contributions	5,664	3,071
	<u>21,933</u>	<u>11,617</u>
including Bulyard Shipbuilding Industry AD (salaries and social security contributions)	9,356	-

The average staff number of the Group at 31 December 2005 is 2 646 employees ( 2004: 1,817 employees). The increase is due to the inclusion in the Group of Bulyard Shipbuilding Industry AD, which average staff number at the reporting period is 833 employees.

**INDUSTRIAL HOLDING BULGARIA PLC**

**Notes to the Interim Consolidated Financial Statements**

**4. Other operating expenses**

*In thousands of BGN*

	<b>2005</b>	<b>2004</b>
	31 December	31 December
Cost of materials and goods sold	1,248	293
Other expenses	2,433	1,284
	<u>3,681</u>	<u>1,577</u>

**5. Net financing income/ (expenses)**

*In thousands of BGN*

	<b>2005</b>	<b>2004</b>
	31 December	31 December
Interest expense	(693)	(571)
Interest income	426	147
Net foreign exchange gain/(loss)	(124)	(292)
Dividend income	43	6
Net profit / (loss) from disposal of a subsidiary	(428)	-
Impairment of financial assets	(207)	-
Gain profit / (loss) from trading investments, etc.	7,000	280
Other financial profit / (loss), net	(220)	(179)
	<u>5,797</u>	<u>(609)</u>

**6. Income tax expense**

Current tax expenses include the accrued corporate income tax at 15% rate for 2005 and represent the summarised Group result, as in accordance with the Bulgarian legislation each company is an independent reporting entity.

**7. Property, plant and equipment**

	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Other fixed assets</b>	<b>Assets under construction</b>	<b>Total</b>
<i>In thousands of BGN</i>					
Balance at 1 January 2005	33,366	12,003	2,293	1,218	48,880
Additions through business combination	6,554	14,393	222	76	21,245
Additions	1,723	3,533	676	4,090	4,610
Disposals	(10,398)	(650)	(274)	(4,720)	(6,779)
Balance at 31 December 2005	<u>31,245</u>	<u>29,279</u>	<u>2,917</u>	<u>664</u>	<u>64,105</u>
Depreciation and impairment losses					
Balance at 1 January 2005	1,609	3,671	1,178	-	6,458
Additions through business combination	89	1,259	39	-	1,387
Depreciation charge for the year	718	2,099	346	-	3,163
Depreciation of assets written off	(28)	(150)	(79)	-	(257)
Balance at 31 December 2005	<u>2,388</u>	<u>6,879</u>	<u>1,484</u>	<u>-</u>	<u>10,751</u>
Carrying amount					
At 1 January 2005	<u>31,757</u>	<u>8,332</u>	<u>1,115</u>	<u>1,218</u>	<u>42,422</u>
At 31 December 2005	<u>28,857</u>	<u>22,400</u>	<u>1,433</u>	<u>664</u>	<u>53,354</u>

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the Interim Consolidated Financial Statements

### 8. Intangible assets

The carrying amount of the Group's intangible assets is BGN 188 thousand. The amortisation charge for the intangible assets for the period ending 31 December 2005 amounts to BGN 78 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 during the year.

### 9. Goodwill

The positive goodwill arises on the acquisition of shares in ZMM Bulgaria Holding AD until 2004 and the acquisitions in Bulyard Shipbuilding Industry AD and Leyarmach AD. As of the beginning of the reporting period the accrual of goodwill amortisation has ceased, which will be reviewed for impairment at the end of each reporting period.

### 10. Investments in associates

The Group possesses the following investments in associates:

	Country	Ownership
Dunav Tours AD	Bulgaria	48,40%
Chimremontstroy AD	Bulgaria	25,86%
Odesos PMB AD	Bulgaria	30,00%

Through the acquisition of 14 373 shares the Group's share in the associate Dunav Tours AD was also increased by 2,97%.

In March the management of IH Bulgaria PLC took a decision for participation in Odesos PMB AD, Varna, which activity is related to provision of port services and accompanying activities from / to vessels and land transport vehicles and capital of 5 280 000 shares. The Group's share in the enterprise's capital is 30,00 %.

### 11. Other investments

*In thousands of BGN*

	% owners hip	30 September 2005	% owners hip	31 December 2004
ELPO PLC	17,99%	121	17,99%	121
Dockyard Odesos – Varna PLC	-		17,05%	1,100
Meteko AD	0,05%	7		
Other	-	15	-	12
Transbalkan Oil Pipeline Bulgaria AD	14,29%	107	14,29%	429
		<u>250</u>		<u>1,662</u>

During the first quarter of 2005 all 100 thousand shares in the capital of Dockyard Odesos PLC held by the Group were sold at an average price per share, less the sale related commission fees – BGN 78,80 and carrying amount of the shares of BGN 1 100 thousand. Due to Transbalkan Oil Pipeline Bulgaria AD failure to fulfil the purpose for which it was established, in accordance with the terms and conditions of its Articles of Association the company has to initiate liquidation proceedings. The obligation to contribute additional BGN 321 thousand is eliminated.

**INDUSTRIAL HOLDING BULGARIA PLC**

**Notes to the Interim Consolidated Financial Statements**

<b>12 Long-term receivables</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
<i>In thousands of BGN</i>		
On Chimremontstroy AD shares	313	626
On MAK AD shares	280	280
Deferred tax asset	53	
Other long-term receivables	341	376
	<u>987</u>	<u>1,282</u>

**13. Inventories**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Raw materials and consumables	12,774	4,278
Work in progress	13,089	4,959
Finished goods	2,459	1,955
Merchandise	148	33
	<u>28,470</u>	<u>11,225</u>

The increase in inventories is due to Bulyard Shipbuilding Industry AD, which share in the total inventories amounts to BGN 16,469 thousand.

**14. Trade and other receivables**

<i>In thousands of BGN</i>	<b>31 December 2005</b>	<b>31 December 2004</b>
Trade receivables	27,244	2,983
Related parties receivables	22	84
Court and awarded receivables	314	43
Taxes receivable	1,447	576
Other receivables	204	402
Prepayments and deferred expenses	5,038	38
	<u>34,269</u>	<u>4,126</u>

**15. Financial assets held for trading**

During the current year the Holding acquired 64 100 shares in the capital of Bulgartabac Holding PLC and subsequently disposed of 17 312 shares at price, less the sale related commission fees of BGN 36,33 per share compared to purchase price of BGN 32,41 per share. As a result of the decrease in the company's share price at the stock exchange the Company revalued the remaining shares held and reported loss on revaluation of financial assets amounting to BGN 206 thousand. To express the intention of the Company to dispose of the remaining shares in the near future – 0,64% of Bulgartabac Holding PLC capital, these shares have been reclassified from financial assets held for sale (in the 2Q and 3Q interim financial statements) to financial assets held for trading.

**INDUSTRIAL HOLDING BULGARIA PLC**

**Notes to the Interim Consolidated Financial Statements**

**16. Share capital**

The share capital is stated at nominal value as per court registration.

At 31 December 2005 the share capital comprises 21,003,235 ordinary shares with a par value of BGN 1.

**17 (b) Bank loans**

*In thousands of BGN*

	<b>31 December 2005</b>	<b>31 December 2004</b>
<b>Non-current liabilities</b>		
<i>Secured bank loans:</i>		
Augusta Mebel AD	10	64
Leyarmach AD	396	496
ZMM Sliven PLC	147	283
Industrial Holding Bulgaria PLC	-	1,244
	553	2,087
<b>Debenture loan</b>		
Industrial Holding Bulgaria PLC	5233	5221
<b>Current liabilities</b>		
<i>Current portion of secured bank loans:</i>		
<i>Secured bank loans:</i>		
ZMM Sliven PLC	869	719
Augusta Mebel AD	165	173
Industrial Holding Bulgaria PLC	-	1,150
Leyarmach AD	100	100
Machstroy PLC	777	665
Elprom ZEM PLC	75	75
Bulgarian Ship Register AD	-	108
	1,986	2,990

The bank loans have been secured as follows:

Machstroy PLC – pledge of machinery at the total amount of BGN 883 thousand and mortgage on land and buildings of Oreshak Workshop at the amount of BGN 880 thousand and pledge of machinery at the amount of BGN 324 thousand.

ZMM Sliven PLC – the bank loans have been secured with pledge on machinery at the amount of BGN 2,954 thousand and finished goods at the amount of BGN 171 thousand.

Augusta Mebel AD – pledge of machinery at the amount of BGN 200 thousand.

Leyarmach AD – pledge of property, plant and equipment at the amount of BGN 735 thousand.

At the beginning of October IH Bulgaria repaid its payable to DSK Bank in relation to a loan of USD 2 million granted and the outstanding amount at 30 September 2005 of BGN 1 725 thousand.

Notes to the Interim Consolidated Financial Statements

**18. Trade and other payables**

Other non-current payables amounting to BGN 161 represent non-current payable to the State Reserve and War Time Reserves owed in 2005 and 2006 by the subsidiary Elprom ZEM PLC and BGN 24 thousand on financing received by Leyarmach AD under labour conditions improvement project granted by Labour Conditions Fund with the MLSP.

**Deferred tax liabilities**

**19.** Deferred tax liabilities arise due to:

- revaluation reserve arising on revaluation of property, plant and equipment to fair value
- retirement compensation provisions
- provisions for trade and other receivables.

**20. Other payables**

*In thousands of BGN*

	<b>31 December 2005</b>	<b>31 December 2004</b>
Dividends payable	-	1,346
Trade payables	8,328	5,508
Payables to personnel	1,842	645
Social security contributions payable	598	291
Payables to the state budget	4,466	1,075
Prepayments received	22,392	331
Other	876	1,658
	<u>38,502</u>	<u>10,854</u>

The outstanding portion of dividends at 1 March 2005 at the amount of BGN 1 323 thousand, distributed from the 1997 profit have been written off and taken to the Company's reserves due to expiration of the prescription period under decision taken by the Management Board of the Company.

At 31 December 2005 payables increase from BGN 22,109 thousand in relation to prepayments received by Bulyard Shipbuilding Industry AD for the building of ships with the following construction numbers 513, 515, 516, 287 and 457.

**21. Provisions**

*In thousands of BGN*

	<b>Warranties</b>	<b>Retirement compensations, lawsuits and other</b>	<b>Total</b>
Balance at 1 January 2005	173	1,378	1,551
Bulyard Shipbuilding Industry AD	85	154	239
Provisions accrued during the year	94	112	206
Reintegrated, utilised	(149)	(84)	(233)
Balance at 31 December 2005	<u>203</u>	<u>1,560</u>	<u>1,763</u>

**Warranties**

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

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the Interim Consolidated Financial Statements

### *Lawsuits*

The Group has allocated a provision amounting to BGN 856 thousand in 2003 and 2004 on a payable of the subsidiary Machstroy PLC in relation to repayment of loans – principal and interest – in accordance with the Law for Settlement of Non-Performing Loans (ZUNK). In 2005 additional BGN 51 thousand have been set aside as a result of movement in the exchange rate of the USD. The estimated expenses on lawsuit provisions amounting to BGN 150 thousand, accrued by Elprom PLC, are based on detailed information for lawsuits against that company.

### *Payables on retirement compensations of employees*

The Group has made an estimate of the due retirement compensations in accordance with the Labour Code and the Collective Labour Contracts. The estimate at 31 December 2005 amounts to BGN 503 thousand and is included in note 17 in the Non-current liabilities section of the balance sheet.

## 22. Group companies

Under the Group's control

Significant subsidiaries	Note	Country of registration	Percentage of ownership	
			2005	2004
Privatengineering AD		Bulgaria	100,00	100,00
Augusta Mebel AD		Bulgaria	97,86	97,86
Hydropower AD		Bulgaria	67,00	67,00
ZMM Bulgaria Holding AD		Bulgaria	99,998	95,528
ZMM Sliven PLC		Bulgaria	92,89	80,64
ZMM Nova Zagora PLC		Bulgaria	91,10	87,06
Leyarmach AD		Bulgaria	100,00	66,00
Machstroy PLC		Bulgaria	80,81	78,78
Elprom ZEM PLC		Bulgaria	82,19	82,19
Dockyard Port – Bourgas AD		Bulgaria	91,72	91,44
KLVK AD		Bulgaria	100,00	100,00
International Industrial Holding Bulgaria PLC*		Switzerland	100,00	100,00
Maritime Holding AD		Bulgaria	61,00	90,00
Bulgarian Ship Register AD		Bulgaria	61,00	90,00
Bulyard AD, Bulgaria		Bulgaria	51,50	25,00
Bulyard Shipbuilding Industry AD		Bulgaria	38,63	18,75

\* The results of the company registered in Switzerland at 31 December 2005 will be included in the final financial statements.

## 23. Subsequent events

On 25 January 2006 the third interest payment has been made out of a total of 6 interest payments on the debenture loan which should be made in relation to the issued bonds.

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**Notes to the Interim Consolidated Financial Statements**

**24. Differences in the carrying amount of assets and liabilities and in the income statement as a result of the application of IFRS 3 Business combinations compared to IAS 22 Business combinations**

Positive goodwill comprises the unamortised portion at 31 December 2004 of the goodwill arising on the acquisition of ZMM Bulgaria Holding AD amounting to BGN 861 thousand and the positive goodwill arising in the current 2005 on the acquisition of 51,50 % of the capital of Bulyard AD, holding 75% of Bulyard Shipbuilding Industry AD, and on the acquisition of new 34% of Leyarmach AD at the total amount of BGN 4,665 thousand. In accordance with IFRS 3 positive goodwill is not amortised, but it is reviewed for impairment at the year-end. The balance of unamortised negative goodwill at 31 December 2005 amounting to BGN 2 921 thousand has been taken to retained earnings. In 2005 the negative goodwill arising from the increase in the Group's interest in Machstroy PLC, ZMM Nova Zagora PLC, ZMM Sliven and Dockyard Port Bourgas at a total amount of BGN 1 204 thousand is included in the current result.

The differences in the carrying amount of assets and liabilities are as follows:

**IAS balance sheet**

	balance at 31 December 2004 thousands of BGN	at 31 December 2005 thousands of BGN
Goodwill		
Positive goodwill	861	4,166
Negative goodwill	(2,921)	(2,076)
Balance positive (negative) goodwill	(2,060)	2,090

**IFRS balance sheet**

	balance at 31 December 2004 thousands of BGN	at 31 December 2005 thousands of BGN
Goodwill		
Positive goodwill	861	5,526
Negative goodwill	(2,921)	-
Balance positive (negative) goodwill	(2,060)	5,526

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## Notes to the Interim Consolidated Financial Statements

The differences in the income statement are as follows:

### IAS income statement

	Current period income thousands of BGN	Current period expense thousands of BGN.
Amortisation of positive goodwill	-	1,364
Amortisation of negative goodwill	2,058	-
<b>Net effect</b>	<b>694</b>	-

### IFRS income statement

	Current period income thousands of BGN	Current period expense thousands of BGN.
Amortisation of positive goodwill	-	-
Amortisation of negative goodwill	-	-
Recognised negative goodwill on acquisitions	1,204	
<b>Net effect</b>	<b>1,204</b>	