



**Industrial Holding Bulgaria PLC**  
**Interim consolidated financial statements**  
**For the period ended 31 December 2006**

## INDUSTRIAL HOLDING BULGARIA PLC

### Consolidated income statement

For the twelve-month period ended 31 December 2006

*In thousands of BGN*

|   | Note | 2006<br>31 December | 2005<br>31 December |
|---|------|---------------------|---------------------|
| Revenue                                 | 1    | 132,385             | 70,097              |
| Other operating revenue                 | 2    | 2,640               | 22,033              |
| Movements in work in progress           | 3    | 5,828               | 9,071               |
| Cost of materials                       |      | (75,986)            | (32,983)            |
| Hired services                          |      | (20,689)            | (13,918)            |
| Depreciation and amortization           |      | (3,902)             | (2,855)             |
| Personnel expenses                      | 4    | (27,545)            | (20,122)            |
| Cost of assets sold                     |      | (571)               | (1,043)             |
| Other operating expenses                |      | (3,602)             | (2,984)             |
| <b>Operating profit/ (loss)</b>         |      | <b>8,558</b>        | <b>27,296</b>       |
| Net financing income/(expenses)         | 5    | 2,667               | 7,017               |
| Profit / (loss) of associates           | 6    | 1,899               | 1,416               |
| <b>Profit / (loss) before taxation</b>  |      | <b>13,124</b>       | <b>35,729</b>       |
| Tax expense                             | 7    | (1,620)             | (4,180)             |
| <b>Profit/(loss) after taxation</b>     |      | <b>11,504</b>       | <b>31,549</b>       |
| Minority interest                       |      | (1,492)             | (1,651)             |
| <b>Net profit / (loss) for the year</b> |      | <b>10,012</b>       | <b>28,898</b>       |
| Basic earnings per share (BGN)          | 19   | 0.477               | 1,423               |

The Income statement should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 26.

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Daneta Zheleva  
*Executive Director*

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Toshka Vasileva  
*Chief Accountant*

# INDUSTRIAL HOLDING BULGARIA PLC

## Consolidated balance sheet

As of 31 December 2006

In thousands of BGN

|                                     | Note | 2006<br>31 December | 2005<br>31 December |
|-------------------------------------|------|---------------------|---------------------|
| <b>Assets</b>                       |      |                     |                     |
| Property, plant and equipment       | 8    | 56,580              | 53,334              |
| Non-current intangible assets       | 9    | 502                 | 183                 |
| Goodwill                            | 9    | 6,509               | 5,520               |
| Investments in associates           | 11   | 9,004               | 7,706               |
| Financial assets available for sale | 12   | 17                  | 242                 |
| Long-term receivables               | 16   | 1,185               | 943                 |
| <b>Total non-current assets</b>     |      | <u>73,797</u>       | <u>67,928</u>       |
| Inventories                         | 14   | 49,456              | 30,204              |
| Trade and other receivables         | 15   | 33,510              | 34,460              |
| Financial assets held for trading   | 13   | 1,361               | 1,310               |
| Cash and cash equivalents           | 17   | 17,333              | 21,864              |
| <b>Total current assets</b>         |      | <u>101,660</u>      | <u>87,838</u>       |
| <b>Total assets</b>                 |      | <u>175,457</u>      | <u>155,766</u>      |
| <b>Equity</b>                       |      |                     |                     |
| Share capital                       | 18   | 21,003              | 21,003              |
| Reserves                            |      | 15,144              | 13,735              |
| Retained earnings (net)             |      | 56,948              | 47,321              |
| <b>Total equity and reserves</b>    |      | <u>93,095</u>       | <u>82,059</u>       |
| <b>Minority interest</b>            |      | <u>20,976</u>       | <u>21,303</u>       |
| <b>Liabilities</b>                  |      |                     |                     |
| Loans                               | 20   | 7,716               | 503                 |
| Debenture loan                      | 20   | -                   | 5,233               |
| Trade and other long-term payables  | 22   | 21                  | 24                  |
| Provisions                          | 21   | 615                 | 2,686               |
| Deferred tax liabilities            | 23   | 1,135               | 1,348               |
| <b>Total long-term liabilities</b>  |      | <u>9,487</u>        | <u>9,794</u>        |
| Loans                               | 20   | 1,925               | 2,052               |
| Other payables                      | 20   | 5,244               |                     |
| Provisions                          | 22   | 44,293              | 40,322              |
| <b>Total current liabilities</b>    | 21   | <u>437</u>          | <u>236</u>          |
| <b>Total equity and liabilities</b> |      | <u>51,899</u>       | <u>42,610</u>       |
| Loans                               |      | <u>175,457</u>      | <u>155,766</u>      |

The Balance sheet should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 26.

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Daneta Zheleva  
Executive Director

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Toshka Vasileva  
Chief Accountant

# INDUSTRIAL HOLDING BULGARIA PLC

## Consolidated cash flow statement

For the period ended 31 December 2006

| <i>In thousands of BGN</i>                               | <b>2006</b>          | <b>2005</b>          |
|--|----------------------|----------------------|
|  | <b>31 December</b>   | <b>31 December</b>   |
| <b>Operating cash flow</b>                               |                      |                      |
| Proceeds from customers                                  | 138,461              | 100,768              |
| Payments to suppliers                                    | (133,680)            | (72,144)             |
| Remuneration related payments                            | (25,352)             | (20,436)             |
| Taxes paid (refunded) (net)                              | (4,664)              | (1,462)              |
| Interest received (paid)                                 | 478                  | 135                  |
| Foreign exchange gain (loss)                             | (908)                | 752                  |
| Other proceeds (payments)                                | 5,397                | 1,701                |
| <i>Net operating cash flow</i>                           | <u>(20,268)</u>      | <u>9,314</u>         |
| <b>Investment cash flow</b>                              |                      |                      |
| Purchase/ sale of property, plant and equipment (net)    | 19,272               | 11,207               |
| Purchase of investments                                  | (2,026)              | (10,478)             |
| Proceeds from sale of investments                        | 1,127                | 330                  |
| Proceeds from dividends                                  | 35                   | 1,526                |
| Proceeds from sale of financial assets held for trading  | 287                  | 6,594                |
| <i>Net investment cash flow</i>                          | <u>18,695</u>        | <u>9,179</u>         |
| <b>Financial cash flow</b>                               |                      |                      |
| Proceeds from loans and issue of debt                    | 10,051               | 2,059                |
| Loans repaid   | (9,144)              | (5,438)              |
| Dividends paid   | (287)                | (179)                |
| Loan interest, charges and commission fees paid          | (838)                | (656)                |
| Other proceeds (payments)                                | (2,740)              | (518)                |
| <i>Net financial cash flow</i>                           | <u>(2,958)</u>       | <u>(4,732)</u>       |
| Increase/(decrease) in cash and cash equivalents         | (4,531)              | 13,761               |
| Cash and cash equivalents at the beginning of the period | 21,864               | 8,103                |
| <b>Cash and cash equivalents at 31 December</b>          | <b><u>17,333</u></b> | <b><u>21,864</u></b> |

The Cash flow statement should be considered together with the notes thereto, which form integral part of the financial statements presented on pages 7 to 26.

Daneta Zheleva  
*Executive Director*

Toshka Vasileva  
*Chief Accountant*

# INDUSTRIAL HOLDING BULGARIA PLC

## Consolidated statement of changes in equity

### For the period ended 31 December 2006

| <i>In thousands of BGN</i>   | Note | Share capital | Additional and legal reserves | Revaluation reserve | Retained earnings | Total  |
|--|------|---------------|-------------------------------|---------------------|-------------------|--------|
| Balance as at 1 January 2004   |      | 21,003        | 4,852                         | 6,558               | 6.866             | 39.279 |
| Recognized profit for the period                                     |      | -             | -                             | -                   | 7.662             | 7,662  |
| Reserves set aside   |      | -             | 223                           | -                   | (223)             | -      |
| Change in tax rate   |      | -             | -                             | 447                 | -                 | 447    |
| Transfer of reserves   |      | -             | (149)                         | -                   | 149               | -      |
| Other movements  |      | -             | (11)                          | (23)                | (37)              | (71)   |
| Balance as at 31 December 2004                                       |      | 21,003        | 4,915                         | 6,982               | 14,417            | 47,317 |
| Change in opening balances from acquisition and others               |      | -             | -                             | -                   | (702)             | (702)  |
| Change in accounting policy – IFRS 3                                 |      |               |                               |                     | 4,177             | 4,177  |
| Adjusted balance as at 1 January 2005                                |      | 21,003        | 4,915                         | 6,982               | 17,892            | 50,792 |
| Recognized profit for the current year                               |      | -             | -                             | -                   | 29,898            | 29,898 |
| Reserves set aside   |      | -             | 520                           | -                   | (520)             | -      |
| Additional reserves set aside  |      | -             | 197                           | -                   | (197)             | -      |
| Dividend from the 1997 profit written off                            |      |               | 1,323                         |                     |                   | 1,323  |
| Revaluation reserve written off                                      |      |               |                               | (28)                | 28                |        |
| Other movements  |      | -             | 27                            | (4)                 | 23                | 46     |
| Balance as at 31 December 2005                                       |      | 21,003        | 6,785                         | 6,950               | 47,321            | 82,059 |
| Recalculation of opening balances due to change in accounting policy |      |               |                               |                     | 579               | 579    |
| Correction of mistakes   |      |               |                               |                     | -65               | -65    |
| Adjusted balance as at 1 January 2006                                |      | 21,003        | 6,785                         | 6,950               | 47,835            | 82,573 |
| Profit for the period  |      |               |                               |                     | 10,012            |        |
| Reserves set aside   |      |               | 1,188                         |                     | (1,188)           |        |
| Revaluation reserve written off                                      |      |               |                               | -164                | 164               |        |

## INDUSTRIAL HOLDING BULGARIA PLC

### Consolidated statement of changes in equity - continued

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|                                |        |       |       |        |        |
|--------------------------------|--------|-------|-------|--------|--------|
| Change in tax rate             |        |       |       | 379    |        |
| Other changes                  |        |       |       | -3     | 125    |
| Balance as at 31 December 2006 | 21,003 | 7,973 | 7,162 | 56,948 | 93,086 |

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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 26.

Daneta Zheleva  
*Executive Director*

Toshka Vasileva  
*Chief Accountant*

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 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 47 Vasil Levski Blvd, 1000 Sofia. The consolidated financial statements of the Company for the period ended 31 December 2006 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 of and trading in 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 leva (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 result from 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.

##### (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 realized 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 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

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

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) Foreign currency

Transactions in foreign currency are recorded in Bulgarian leva 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 leva 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 in 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. The cost of acquisition of tangible fixed assets includes materials, hired services, direct labour and the respective portion of general production costs.

#### (ii) Leased assets

Leases, which transfer the significant risks and rewards of ownership to the Group, are classified as finance leases. Property, plant and equipment acquired through financial lease 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 policy I).

#### (iii) Subsequent expenses

Subsequent expenses incurred to replace a component of a tangible fixed asset reported separately are capitalized. Other subsequent expenses are capitalized only if they increase the future economic benefits of the respective asset. All other costs are recognized 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
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Assets are depreciated 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.



# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### (g) Intangible fixed assets

#### (i) Goodwill

Goodwill arising upon acquisition is the excess of the acquisition costs over the fair value of the acquired identifiable assets and liabilities. Goodwill is presented at cost less the accumulated impairment loss (see accounting policies 1). Goodwill is not amortized any longer, but it is tested for impairment every year. In respect of associates the carrying amount of the 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 at 1 January 2005 negative goodwill is recognized 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 recognized, has been recognized in the income statement when future losses and costs have been recognized. The negative goodwill not amortized as at 31 December 2004 was written off from the retained profit as at 1 January 2005.

### (g) Intangible fixed assets

Other intangible assets acquired by the Group are presented at cost less the accumulated amortization (see below) and impairment losses (see accounting policies 1). 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 capitalized only when they lead to increase in the future economic benefits of the asset they relate to. All other costs are recognized as incurred.

#### (v) Amortization

The amortization of intangible assets is charged to the Income statement based on the straight-line amortization method depending on their estimated useful lives. Intangible assets are amortized 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 amortized 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 realizable value. The net realizable 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.

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### (j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and 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 recognized / derecognized by the Group on the date when the Group undertakes a binding commitment to purchase / sell the investments. Investments held to maturity are recognized / derecognized 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 being taken to the Income statement. When the Group intends to hold investments to maturity, such investments are reported at cost, less the amortization 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 determination 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 recognized whenever the carrying amount of an asset or a cash generating unit exceeds the asset's recoverable amount. Impairment losses are recognized 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.

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

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 impairment 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 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 other assets are reversed when a change in the estimates used for determination of the recoverable amount is established.

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 recognized.

### **(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 in 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 amortized cost with any difference between the initial amount and amount at maturity being 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 amortized cost.

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### (r) Revenue

#### (i) *Goods sold and services rendered*

Revenue from sales of finished goods and products are recognized 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 recognized 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 recognized 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 under the contract. Any loss expected to be incurred under the contract is taken to the Income statement immediately.

### (r) *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 asset yield.

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

### (t) **Income tax**

Income tax expense / income include current and deferred taxes. Income taxes are recognized 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 recognized only to the extent it is probable that future taxable profit will be available against which the unused tax asset can be utilized. The deferred tax asset is reduced to the extent where it is no longer probable that future economic benefit will be realized.

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

### (u) **Segments**

## **INDUSTRIAL HOLDING BULGARIA PLC**

### **Notes to the interim consolidated financial statements**

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 than those of the remaining segments.

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 1. Revenue

*In thousands of BGN*

|                               | <b>2006</b>        | <b>2005</b>        |
|-------------------------------|--------------------|--------------------|
|                               | <b>31 December</b> | <b>31 December</b> |
| Sale of production            | 110,626            | 44,988             |
| <i>including shipbuilding</i> | 66,439             | 4,885              |
| Sale of services              | 18,730             | 23,297             |
| <i>including ship repairs</i> | 8,466              | 13,137             |
| Sale of goods and materials   | 3,029              | 1,812              |
|                               | <u>132,385</u>     | <u>70,097</u>      |

### 2. Other operating revenue

*In thousands of BGN*

|                      | <b>2006</b>        | <b>2005</b>        |
|----------------------|--------------------|--------------------|
|                      | <b>31 December</b> | <b>31 December</b> |
| Sale of fixed assets | 2a 1,480           | 20,469             |
| Other revenue        | 1,160              | 1,564              |
|                      | <u>2,640</u>       | <u>22,033</u>      |

### 2.a

|                                       |              |               |
|---------------------------------------|--------------|---------------|
| Revenue from sale of fixed assets     | 1,986        | 31,522        |
| Carrying amount of assets sold        | 506          | (9,047)       |
| Other costs related to sale of assets |              | (2,006)       |
|                                       | <u>1,480</u> | <u>20,469</u> |

### 3. Increase / (decrease) of work in progress

*In thousands of BGN*

|                                  | <b>2006</b>        | <b>2005</b>        |
|----------------------------------|--------------------|--------------------|
|                                  | <b>31 December</b> | <b>31 December</b> |
| Mashstroy AD                     | (60)               | 1,189              |
| Leyarmash AD                     | (16)               | (267)              |
| ZMM Sliven AD                    | 188                | (72)               |
| Augusta Mebel AD                 | 187                | (85)               |
| Dockyard Port Bourgas AD         | 96                 | (20)               |
| ZMM Nova Zagora AD               | 251                | 134                |
| Elprom ZEM AD                    | 1263               | 466                |
| Bulyard Shipbuilding Industry AD | 3,760              | 7,726              |
| Bulgarian Ship Register          | 159                | -                  |
|                                  | <u>5,828</u>       | <u>9,071</u>       |

### 4. Personnel expenses

*In thousands of BGN*

|  | <b>2006</b>        | <b>2005</b>        |
|--|--------------------|--------------------|
|  | <b>31 December</b> | <b>31 December</b> |
| Wages and salaries                         | 20,840             | 15,120             |
| Social security contributions and payments | 6,705              | 5,002              |
|  | <u>27,545</u>      | <u>20,122</u>      |

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 5. Net financing income / (expense)

*In thousands of BGN*

|  | <b>2006</b>        | <b>2005</b>        |
|--|--------------------|--------------------|
|  | <b>31 December</b> | <b>31 December</b> |
| Interest expense                                     | (629)              | (673)              |
| Interest income                                      | 1,280              | 438                |
| Net exchange rate gain/ (loss)                       | 778                | (166)              |
| Dividend income                                      | 35                 | 43                 |
| Net financial asset transactions gain/ (loss)        | 1,158              | 6,567              |
| Unrealized financial asset transactions gain/ (loss) | 281                | (207)              |
| Recognized negative goodwill                         | 88                 | 1,236              |
| Other financial gains/ (loss), net                   | (324)              | (221)              |
|  | <u>2,667</u>       | <u>7,017</u>       |

### 6. Profit / (loss) of associates

*In thousands of BGN*

|                   | <b>2006</b>        | <b>2005</b>        |
|-------------------|--------------------|--------------------|
|                   | <b>31 December</b> | <b>31 December</b> |
| Dounav Tours AD   | 888                | 702                |
| Instrum Travel    | 1,011              | 875                |
| Himremontstroy AD | -                  | (146)              |
| Odesos PMB AD     | -                  | (15)               |
|                   | <u>1,899</u>       | <u>1,416</u>       |

### 7. Tax expense

|  | <b>2006</b>        | <b>2005</b>        |
|--|--------------------|--------------------|
|  | <b>31 December</b> | <b>31 December</b> |
| Current corporate tax expense          | 1,150              | 4,286              |
| Deferred income tax expense / (income) | 470                | (106)              |
|  | <u>1,620</u>       | <u>4,180</u>       |

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

### 8. Property, plant and equipment

|                                       | <b>Land and buildings</b> | <b>Plant and equipment</b> | <b>Other fixed assets</b> | <b>Costs of tangible fixed assets acquisition</b> | <b>Total</b>  |
|---------------------------------------|---------------------------|----------------------------|---------------------------|---|---------------|
| <i>In thousands of BGN</i>            |                           |                            |                           |   |               |
| <b>Book value</b>                     |                           |                            |                           |   |               |
| Balance as at 1 January 2005          | 33,366                    | 12,006                     | 2,329                     | 1,218   | 48,919        |
| Acquired through 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 as at 31 December 2005        | <u>31,207</u>             | <u>29,317</u>              | <u>2,806</u>              | <u>782</u>  | <u>64,112</u> |

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### *Depreciation and impairment losses*

|                                       |              |              |              |          |               |
|---------------------------------------|--------------|--------------|--------------|----------|---------------|
| Balance as at 1 January 2005          | 1,604        | 3,697        | 1,196        | -        | 6,497         |
| Acquired through business combination | 139          | 1,700        | 19           |          | 1,858         |
| Depreciation costs for the year       | 692          | 1,809        | 291          | -        | 2,792         |
| Depreciation of assets written off    | (41)         | (264)        | (64)         | -        | (369)         |
| Balance as at 31 December 2005        | <u>2,394</u> | <u>6,942</u> | <u>1,442</u> | <u>-</u> | <u>10,778</u> |

### *Book value*

|                                |               |               |              |              |               |
|--------------------------------|---------------|---------------|--------------|--------------|---------------|
| Balance as at 1 January 2006   | 31,207        | 29,317        | 2,806        | 782          | 64,112        |
| Additions                      | 2,002         | 346           | 850          | 4,497        | 7,695         |
| Disposals                      | (706)         | (445)         | (179)        |              | (1,330)       |
| Transfers                      | 443           | 3,739         |              | (4,182))     | -             |
| Balance as at 31 December 2006 | <u>32,946</u> | <u>32,957</u> | <u>3,477</u> | <u>1,097</u> | <u>70,477</u> |

### *Depreciation and impairment losses*

|                                    |              |              |              |          |               |
|------------------------------------|--------------|--------------|--------------|----------|---------------|
| Balance as at 1 January 2006       | 2,394        | 6,942        | 1,442        | -        | 10,778        |
| Depreciation costs for the year    | 886          | 2,200        | 416          | -        | 3,502         |
| Depreciation of assets written off | (116)        | (231)        | (37)         | -        | (384)         |
| Balance as at 31 December 2006     | <u>3,164</u> | <u>8,911</u> | <u>1,821</u> | <u>-</u> | <u>13,896</u> |

### *Carrying amount*

|                        |               |               |              |              |               |
|------------------------|---------------|---------------|--------------|--------------|---------------|
| As at 1 January 2005   | <u>28,813</u> | <u>22,375</u> | <u>1,364</u> | <u>782</u>   | <u>53,334</u> |
| As at 31 December 2006 | <u>29,782</u> | <u>24,046</u> | <u>1,656</u> | <u>1,097</u> | <u>56,580</u> |

Some of the property, plant and equipment are pledged as collateral for the Group's bank loans.

In relation to collateral on contract securing the issuance of bank guarantees for ship building, first mortgage on land and buildings and first registered 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

|                            | Patents and<br>trademarks | Software   | Other<br>intangible<br>assets | Total      |
|----------------------------|---------------------------|------------|-------------------------------|------------|
| <i>In thousands of BGN</i> |                           |            |                               |            |
| <b>Book value</b>          |                           |            |                               |            |
| As at 1 January 2006       | <u>111</u>                | <u>31</u>  | <u>41</u>                     | <u>183</u> |
| As at 31 December 2006     | <u>58</u>                 | <u>352</u> | <u>92</u>                     | <u>575</u> |

Due to the fact that the intangible fixed assets owned by the Group are an immaterial part, no detailed note has been prepared on their movement.

### (i) Goodwill



# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

| <i>In thousands of BGN</i>   | <b>Goodwill</b> | <b>Negative goodwill</b> | <b>Total</b> |
|--|-----------------|--------------------------|--------------|
| Balance as at 1 January 2005   | 855             | (2,915)                  | (2,060)      |
| Appreciation through business combinations                               | 4,665           | -                        | 4,665        |
| Negative goodwill recognized in the opening balance of retained earnings | -               | 2,915                    | 2,915        |
| Balance as at 31 December 2005   | <u>5,520</u>    | <u>-</u>                 | <u>5,520</u> |
| Appreciation through business combinations                               | 989             | -                        | 989          |
| Balance as at 31 December 2006   | <u>6,509</u>    | <u>-</u>                 | <u>6,509</u> |

| <i>In thousands of BGN</i> | <b>Goodwill</b> | <b>Negative goodwill</b> | <b>Total</b> |
|----------------------------|-----------------|--------------------------|--------------|
|----------------------------|-----------------|--------------------------|--------------|

As of 1 January 2005 the Group applies the requirements 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 amortization of goodwill has stopped, with the latter being tested for impairment at the end of the reporting period.

Goodwill resulting from the acquisition of 10% of the capital of Bulyard AD 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 capital of BGN 2,000 thousand for the purpose of participation in the privatization of Balkancar Sredets AD.

In February 2006 the subsidiary Private Engineering AD established its own two subsidiaries - Emona Shipping Ltd. and Martsiana Shipping Ltd., registered in Malta, which have concluded an agreement to build two multi-purpose /MPC/ 9800 ton ships in Bulyard Shipbuilding Industry AD.

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 interest in the capital of Bulyard AD, and the Holding's interest reached 61,50 %.

The Group acquired 2,47 % of the capital of ZMM Nova Zagora AD through purchase, and thus its share in the company's capital reached 93,57 %.

30 of the shares of the subsidiary Elprom ZEM AD were sold at the selling price of BGN 766 thousand and the realized profit based on net assets is BGN 490 thousand.

### 11. Investments in associates

The Group possesses the following investments in associates:

|                    | <b>Country</b> | <b>Ownership</b> |             |
|--------------------|----------------|------------------|-------------|
|                    |                | <b>2006</b>      | <b>2005</b> |
| Dounav Tours AD    | Bulgaria       | 48,40%           | 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 analyzed as follows:

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

| <i>In thousands of BGN</i>                                 | <b>2006</b>        | <b>2005</b>        |
|--|--------------------|--------------------|
| <b><i>Dounav Tours AD</i></b>                              | <b>31 December</b> | <b>31 December</b> |
| As at 1 January  | 5,157              | 3,178              |
| Adjustment in accordance with IFRS 3                       | -                  | 1,262              |
| Share in the appreciation of net assets                    | 887                | 468                |
|  | -                  | 234                |
| Additionally acquired                                      | -                  | 15                 |
| Investment amount  | <u>6,044</u>       | <u>5,157</u>       |
| <b><i>Chimremontstroy AD</i></b>                           | <b>2006</b>        | <b>2005</b>        |
|  | <b>31 December</b> | <b>31 December</b> |
| As at 1 January  | 600                | 746                |
| Impairment   |                    | (146)              |
| Sale   | (600)              | -                  |
| Investment amount  | <u>0</u>           | <u>600</u>         |
| <b><i>Istrum Travel</i></b>                                | <b>2006</b>        | <b>2005</b>        |
|  | <b>31 December</b> | <b>31 December</b> |
| Investment   | 379                | 999                |
| Share in the appreciation of net assets                    | 1,011              | 875                |
| Dividends paid during the period                           | -                  | (1,495)            |
| Investment amount  | <u>1,390</u>       | <u>379</u>         |
| <b><i>Odesos PMB AD</i></b>                                | <b>2006</b>        | <b>2005</b>        |
|  | <b>31 December</b> | <b>31 December</b> |
| Investment   | 1,570              | 1,585              |
| Share in the appreciation of net assets                    | -                  | (15)               |
| Investment amount  | <u>1,570</u>       | <u>1,570</u>       |
|  | <u>9,004</u>       | <u>7,706</u>       |
| Total investments in associates as at the reporting period |                    |                    |

## 12. Other investments

| <i>In thousands of BGN</i>           | <b>Ownership in</b> | <b>Ownership in</b> | <b>2006</b> | <b>2005</b> |
|--------------------------------------|---------------------|---------------------|-------------|-------------|
|                                      | <b>%</b>            | <b>%</b>            |             |             |
| ELPO AD                              | -                   | 17.99%              | -           | 121         |
| Transbalkan Oil Pipeline Bulgaria AD | -                   | 14.29%              | -           | 107         |
| Meteko AD                            | -                   | 0.67%               | 7           | 7           |
| Other                                | -                   | -                   | 10          | 7           |
|                                      |                     |                     | <u>17</u>   | <u>242</u>  |

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.

As Transbalkan Oil Pipeline Bulgaria AD failed to achieve the purpose of its establishment, the General Meeting of Shareholders decided to declare the Company in liquidation proceedings at a session held in October. Upon proceedings closure the capital share, subscribed by IHB PLC, will be recovered; therefore, it has been reported as a short-term receivable.

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 13 Financial assets held for trading

| <i>In thousands of BGN</i>              | 2006         | 2005         |
|---|--------------|--------------|
| Shares at purchase cost as at 1 January | 1,310        | 2,077        |
| Shares at purchase cost                 | (230)        | (561)        |
| Impairment                              | 281          | (206)        |
| Amount at the reporting period          | <u>1,361</u> | <u>1,310</u> |

The shares have been valued at the amount they are traded at Bulgarian Stock Exchange as at 31 December 2006 (BGN 35.30 per share).

### 14. Inventories

| <i>In thousands of BGN</i>               | Note | 2006          | 2005          |
|--|------|---------------|---------------|
| Raw materials, materials and consumables |      | 28,697        | 14,728        |
| Work in progress                         | 14a  | 17,952        | 12,868        |
| Finished goods                           |      | 2,795         | 2,459         |
| Merchandise                              |      | 12            | 149           |
|  |      | <u>49,456</u> | <u>30,204</u> |

#### 14.a. Work in progress

Work in progress includes

| <i>In thousands of BGN</i>           | 2006          | 2005          |
|--------------------------------------|---------------|---------------|
| Work in progress in shipbuilding     | 11,836        | 7,170         |
| Work in progress in ship repairs     | 112           | 483           |
| Work in progress in machine building | 5,969         | 5,215         |
| Furniture production                 | 35            | -             |
|                                      | <u>17,952</u> | <u>12,868</u> |

### 15. Trade and other receivables

| <i>In thousands of BGN</i>        | 2006          | 2005          |
|-----------------------------------|---------------|---------------|
| Trade receivables                 | 22,853        | 27,221        |
| Receivables from related parties  | 6,297         | 4             |
| Court receivables                 | 164           | 298           |
| Tax receivable                    | 2,179         | 1,454         |
| Other receivables                 | 373           | 214           |
| Prepayments and deferred expenses | 1,644         | 5,269         |
|                                   | <u>33,510</u> | <u>34,460</u> |

### 16. Long-term receivables

| <i>In thousands of BGN</i>     | 2006         | 2005       |
|--------------------------------|--------------|------------|
| Mak - Gabrovo                  | 140          | 210        |
| Chimremontstroy Engineering AD | 586          | 313        |
| Mak - Gabrovo                  | 37           | -          |
| Other long-term receivables    | 422          | 420        |
|                                | <u>1,185</u> | <u>943</u> |

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 17. Cash and cash equivalents

| <i>In thousands of BGN</i>                     | 2006   | 2005   |
|--|--------|--------|
| Cash at banks                                  | 11,305 | 14,338 |
| Cash on hand                                   | 411    | 137    |
| Blocked cash                                   | 5,617  | 7,389  |
| Cash and cash equivalents in the balance sheet | 17,333 | 21,864 |

Blocked cash amounting to BGN 900 thousand represents 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 4,704 thousand have been blocked. The amount of BGN 13 thousand is blocked in relation to advance received for financing of innovation project, which cannot be utilized until final completion of the stage of work.

### 18. Share capital and reserves

The share capital is stated at nominal value as per the court registration. As at 31 December 2006 the share capital comprises 21,003,235 ordinary shares (2003: 21,003,235) with nominal value of BGN 1 each.

#### *Additional and statutory reserves*

Additional and statutory reserves include reserves formed by setting aside 10% of the profit in accordance with the provisions 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 and revaluation reserve written off as a result of sold tangible fixed assets.

### 19 Earnings per share

#### *Basic earnings per share*

The calculation of basic earnings per share as at 31 December 2006 is based on the net profit attributable to the ordinary shareholders, amounting to BGN 10,012 thousand (2005: BGN 28,898 thousand) and the average weighted number of ordinary shares outstanding during the period ended 31 December 2006, of 21,003,235 (2005: 21,003,235). The calculation is as follows:

#### *Net profit attributable to the ordinary shareholders*

| <i>In thousands of BGN</i>                           | 2006   | 2005   |
|--|--------|--------|
| Net profit for the year                              | 10,012 | 28,898 |
| Net profit attributable to the ordinary shareholders | 10,012 | 28,898 |

#### *Average weighted number of ordinary shares outstanding*

| <i>In thousand of shares</i>                             | 2006   | 2005   |
|--|--------|--------|
| Ordinary shares issued as at 1 January 2006              | 21,003 | 21,003 |
| Ordinary shares as at 31 December 2006                   | 21,003 | 21,003 |
| Average weighted number of shares as at 31 December 2006 | 21,003 | 21,003 |

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 20 Loans

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

| <i>In thousands of BGN</i>            | <b>2006</b>  | <b>2005</b>  |
|---------------------------------------|--------------|--------------|
| <b><i>Non-current liabilities</i></b> |              |              |
| Secured bank loans                    | 7,716        | 503          |
|                                       | <u>7,716</u> | <u>503</u>   |
| <b><i>Current liabilities</i></b>     |              |              |
| Current portion of secured bank loans | 1,925        | 2,052        |
|                                       | <u>1,925</u> | <u>2,052</u> |
| <b><i>Debenture loan</i></b>          |              |              |
| Non-current portion                   | 5,244        | 5,233        |
| Current portion – interest payables   | 22 158       | 158          |
|                                       | <u>5,402</u> | <u>5,391</u> |

### ***Terms and conditions and maturity***

| <i>In thousands of BGN</i>                     | <b>Total</b> | <b>Up to 1 year</b> | <b>Over 1 year</b> |
|--|--------------|---------------------|--------------------|
| Secured bank loans:                            |              |                     |                    |
| EUR 205 thousand – 1-month LIBOR+ 3,25%        | 200          | 100                 | 100                |
| EUR 225 thousand – 3-month EURIBOR+2,6%        | 488          | 488                 |                    |
| BGN 75 thousand – floating approximately 9,28% | 75           | 75                  | -                  |
| EUR 100 thousand –3-month EURIBOR+3,2%         | 147          | 147                 | -                  |
| USD 400 thousand – 3-month LIBOR +3,75%        | 133          | 133                 |                    |
| EUR 100 thousand – EURIBOR+3,25%               | 166          | 136                 | 30                 |
| EUR 450 thousand – 3-month EURIBOR+2,5%        | 645          | 645                 | -                  |
| BGN 200 thousand – floating approximately 8,5% | 200          | 200                 | -                  |
| EUR 1 million –1-month EURIBOR+3%              | 1,956        |                     | 1,956              |
| EUR 5 million – 6-month EURIBOR+2,15%          | 5,630        |                     | 5,630              |
|  | <u>2,368</u> | <u>1,925</u>        | <u>7,716</u>       |

Banks loans have been secured with land, buildings, plant and equipment and finished production. Furthermore KRZ Port-Bourgas AD was pledged as a business.

### 21. Provisions

| <i>In thousands of BGN</i>           | <b>Retirement<br/>compensations</b> | <b>Warranties</b> | <b>Lawsuits</b> | <b>Total</b> |
|--------------------------------------|-------------------------------------|-------------------|-----------------|--------------|
| Balance as at 1 January 2006         | 576                                 | 236               | 2,110           | 2,922        |
| Provisions set aside during the year | 180                                 | 259               | 1,302           | 1,741        |
| Provisions reversed (paid)           | (141)                               | (95)              | 3,375           | (3,611)      |
| Balance as at 30 June 2006           | <u>615</u>                          | <u>400</u>        | <u>37</u>       | <u>1,052</u> |

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### *Retirement compensations*

The Group has made an estimate of the due retirement compensations in accordance with the Labour Code and the Collective Labour Contracts by company, where such exist. The estimate as at 31 December 2006 amounts to BGN 615 thousand 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 on warranty historic data, related to similar products or services.

### *Lawsuits*

The estimated expenses on provisions amounting to BGN 37 thousand are based on detailed information on lawsuits initiated against Elprom ZEM AD. Mashstroy AD, with a view to minimizing the risk, fully paid its obligations under the Law on Settlement of Non-Performing Loans, amounting the BGN 3,309 thousand determined by the State Receivables Collection Agency and has not given up the lawsuits initiated.

## 22 Other payables

| <i>In thousands of BGN</i>        | 2006          | 2005          |
|-----------------------------------|---------------|---------------|
| Trade payables                    | 12,291        | 10,435        |
| Payables to personnel             | 2,204         | 1,897         |
| Social security contributions     | 718           | 616           |
| Payables to the budget            | 1,013         | 4,176         |
| Prepayments received              | 26,607        | 22,429        |
| Current portion of debenture loan | 20 158        | 158           |
| Other                             | 1,302         | 611           |
|                                   | <u>44,293</u> | <u>40,322</u> |

## 22. Trade and other long-term payables

| <i>In thousands of BGN</i> | 2006      | 2005      |
|----------------------------|-----------|-----------|
| Other long-term payables   | 21        | -         |
|                            | <u>21</u> | <u>24</u> |

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

## 23 Deferred tax payables

Deferred tax payables arise out of:

- revaluation reserve from revaluation of 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 | Ownership in %<br>2006 |
|----------------------|-------------------------|------------------------|
| Privatengineering AD | Bulgaria                | 100.00                 |

## INDUSTRIAL HOLDING BULGARIA PLC

### Notes to the interim consolidated financial statements

|                                  |             |        |
|----------------------------------|-------------|--------|
| Augusta Mebel AD                 | Bulgaria    | 97.86  |
| Hydropower Bulgaria AD           | Bulgaria    | 77.00  |
| ZMM Bulgaria Holding AD          | Bulgaria    | 100.00 |
| ZMM Sliven AD                    | Bulgaria    | 92.89  |
| ZMM Nova Zagora AD               | Bulgaria    | 93.57  |
| Leyarmash AD                     | Bulgaria    | 100.00 |
| Mashstroy AD                     | Bulgaria    | 80.81  |
| Elprom Zem AD                    | Bulgaria    | 79.75  |
| Dockyard Port – Bourgas AD       | Bulgaria    | 91.74  |
| KLVK AD                          | Bulgaria    | 100.00 |
| International Industrial Holding | Switzerland | 100.00 |
| Emona Shipping Ltd               | Malta       | 100.00 |
| Martsiana 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  |

# INDUSTRIAL HOLDING BULGARIA PLC

## Notes to the interim consolidated financial statements

### 25. Events after the balance sheet date

Bulyard AD initiated procedure for purchase of the rest 25% of the capital of Bulyard Shipbuilding Industry AD, which will increase the interest of Industrial Holding AD in the capital of the shipyard from 46,13% at present to 61,5%.

### 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 registered pledge on machinery, plant and equipment.

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

The Group has concluded agreements 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 and for provision of a credit limit for issuance of bank guarantees and work financing with a limit of BGN 4,500 thousand. The issued bank guarantees have been secured with a registered pledge of a business, which is one of the Group subsidiaries.

At the Annual General Meeting of the shareholders of Industrial Holding Bulgaria PLC held on 15 June 2006 the management was authorized to conclude transactions falling within the provisions of Article 236, Paragraph 2, Item 3 of the Law on Commerce. The transactions are related to securing corporate guarantees /entry into 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 registered pledges on machinery and equipment owned by Bulyard Shipbuilding Industry AD. In June 2006 the Company issued the first corporate guarantee of EUR 4,280,850 and USD 3,729,018 as a security for third advance payments received for building of ship with construction No 516. As a result of a fulfilled obligation by Bulyard Shipbuilding Industry AD to the buyer Varna Maritime Ltd., the guarantee was closed on 15 December 2006.

On 15.11.2006 IHB AD issued the first corporate guarantee for the third advance payment for ship with construction No 457 before the buyer Georgi Maritime Ltd, in the amount of EUR 2,970,000 /two million and nine hundred and seventy thousand euros/ and EUR 2,501,730 /two million and five hundred and one thousand and seven hundred and thirty euros/. The corporate guarantees have been secured by pledge of immovable property of Bulyard Shipbuilding Industry AD.



**INDUSTRIAL HOLDING BULGARIA PLC**

**Notes to the interim consolidated financial statements**