

Industrial Holding Bulgaria PLC

Non-consolidated financial statements

For the year ended 31 December 2005

With Independent Auditor's Report Thereon

INDUSTRIAL HOLDING BULGARIA PLC
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Income Statement

For the year ended 31 December 2005

<i>In thousands of BGN</i>	Note	2005	2004
Income from interest, dividends and investment transactions	1	7,942	1,351
Other operating revenue	2	113	690
		8,055	2,041
Personnel expenses	3	(205)	(211)
Hired services		(167)	(120)
Other operating expenses	4	(148)	(145)
Net operating profit		7,535	1,565
Net financing expenses	5	(396)	(497)
Profit before tax		7,139	1,068
Income tax revenue/(expenses)	6	31	(20)
Profit after tax		7,170	1,048
Basic earnings per share (BGN)	20	0.341	0.049

The income statement should be considered together with the notes thereto, which are an integral part of the financial statements presented on pages 6 to 24.

These financial statements were approved on 23 March 2006.

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Dobrina Kaloyanova
Registered auditor

INDUSTRIAL HOLDING BULGARIA PLC
NON-CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

**Balance sheet
at 31 December 2005**

	Note	2005	2004
<i>In thousands of BGN</i>			
Non-current assets			
Property, plant and equipment	7	122	183
Intangible non-current assets	8	2	5
Long-term investments in subsidiaries	9	28,199	14,086
Investments in associates	10	4,822	9,228
Long-term loans to related parties	11	165	2,699
Financial assets available for sale	12	228	1,650
Other long-term receivables	13	523	906
Deferred tax asset	14	31	-
Total non-current assets		34,092	28,757
Current assets			
Trade and other receivables	15	482	592
Receivables from related parties	16	453	883
Financial assets held for trading	17	1,310	-
Cash and cash equivalents	18	3,044	4,691
Inventories		3	3
Total current assets		5,292	6,169
Total assets		39,384	34,926
Equity			
Capital and reserves			
Share capital	19	21,003	21,003
Reserves		2,761	1,336
Retained earnings (net)		10,100	3,035
Total equity and reserves		33,864	25,374
Non-current liabilities			
Bank loans	21(a)	-	1,244
Payable on debenture loan		5,233	5,221
Payables to related parties		-	-
Total non-current liabilities		5,233	6,465
Current liabilities			
Bank loans	21(b)	-	1,150
Trade and other payables	21(b)	285	609
Payables to related parties		2	-
Tax payables		-	1
Dividends payable	22	-	1,327
Total current liabilities		287	3,087
Total equity and liabilities		39,384	34,926

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**Statement of cash flows
for the year ended 31 December 2005**

<i>In thousands of BGN</i>	2005	2004
Operating activities		
Proceeds received from sale of shares and other trade receivables	7,498	2,450
Dividends received	978	571
Recovered amounts on loans	4,789	4,212
Interest received	301	387
Other proceeds	-	25
Payments for acquisition of shares and stocks	(9,992)	(7,974)
Loans granted	(1,927)	(4,636)
Payments related to labour remuneration	(187)	(222)
Foreign exchange gains/(losses)	316	(392)
Corporate taxes paid	(7)	(44)
Proceeds from sales of options	-	191
Other payments	(319)	(392)
<i>Net cash flow from/(used in) operating activities</i>	1,450	(5,824)
Investing activities		
Acquisition of tangible non-current assets	-	(141)
Acquisition of intangible assets	-	(5)
Proceeds from sale of property, plant and equipment	6	20
<i>Net cash flow from/(used in) investing activities</i>	6	(126)
Financing activities		
Issue of bonds and rights	-	5,367
Bank loan received	-	3,110
Bank loan interest and charges paid	(127)	(153)
Bond charges and interest paid	(315)	(35)
Recovered amounts on bank loan	(2,657)	(513)
Dividends paid	(4)	(15)
<i>Net cash flow (used in)/from investing activities</i>	(3,103)	7,761
Increase/(decrease) in cash and cash equivalents	(1,647)	1,811
Cash and cash equivalents at 1 January	4,691	2,880
Cash and cash equivalents at 31 December	3,044	4,691

The statement of cash flows should be considered together with the notes thereto, which are an integral part of the financial statements presented on pages 6 to 24.

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FOR THE YEAR ENDED 31 DECEMBER 2005

**Statement of changes in equity
for the year ended 31 December 2005**

<i>In thousands of BGN</i>	Note	Share capital	Legal reserves	Additional reserves	Retained earnings	Total
Balance at 1 January 2003		21,003	652	610	1,877	24,142
Distribution of 2003 profit		-	61	-	(61)	-
Other movements		-	-	(2)	(2)	(4)
Profit for the period		-	-	-	192	192
Balance at 31 December 2003		21,003	713	608	2,006	24,330
Balance at 1 January 2004		21,003	713	608	2,006	24,330
Distribution of 2003 profit		-	19	-	(19)	-
Donations made		-	-	(4)	-	(4)
Profit for the period		-	-	-	1,048	1,048
Balance at 31 December 2004		21,003	732	604	3,035	25,374
Balance at 1 January 2005		21,003	732	604	3,035	25,374
Distribution of 2004 profit		-	105	-	(105)	-
Increase in reserves against 1997 dividend written off	22	-	-	1,323	-	1,323
Profit for the period		-	-	-	7,170	7,170
Donations against reserves		-	-	(3)	-	(3)
Balance at 31 December 2005		21,003	837	1,924	10,100	33,864

The statement of changes in equity should be considered together with the notes thereto, which are an integral part of the financial statements presented on pages 6 to 24.

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(a) Legal status

Industrial Holding Bulgaria PLC (the Company or the Holding) is a joint-stock company, registered in the Republic of Bulgaria under company file 13081 dated 1996 with a seat in Sofia.

Initially the Company was established as a privatisation fund under the Law on Privatisation funds with the name Privatisation Fund Bulgaria Plc.

The General Assembly of the shareholders held on 27 February 1998 passed a decision for rearrangement of the activities of Privatisation Fund Bulgaria Plc. as a holding company and a change in the name of the Company from Privatisation Fund Bulgaria Plc. to Industrial Holding Bulgaria Plc.

The Company's capital amounts to BGN 21,003,235.

The Company has a two-tier management system and comprises Supervisory and Management Boards.

The object of the activities of the Company is acquisition, management, assessment and sale of interests in Bulgarian and foreign companies, acquisition, assessment and sale of patents, cession of licenses to use patents of the companies in which the Holding company holds interest, financing of the companies in which the Holding company holds interests, as well as any other activity, not forbidden by law.

The operations of the Company are not limited with a term or another termination condition.

The Company is registered under the Tax Proceedings Law under tax No 1221112349. Entry in the Unified State Register of Business Entities "BULSTAT" has been made under identification code No 121631219 IO, as well as with the State Social Security. It is registered under the Value Added Tax Law.

The shares of the Company are listed at the Bulgarian Stock Exchange AD, Sofia.

The accompanying financial statements are approved for issue by the Directors on 23 March 2006.

(b) Compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), passed by the European Commission. Under the Accountancy Act in effect as of 1 January 2005, International Financial Reporting Standards (IFRS) adopted by the European Commission, are in effect on the territory of the Republic of Bulgaria. These standards should be translated officially to Bulgarian, approved by the Council of Ministers of the Republic of Bulgaria and promulgated in the State Gazette (SG). As of the date of approval of these financial statements by the Company's management, the IFRS adopted by the European Commission have not been approved by the Council of Ministers and have not been published in the SG in Bulgarian language. However, the accompanying financial statements have been prepared on the basis of the IFRS adopted by the European Union, applicable to 2005, as they are published in the Official Journal of the European Union in English.

The Company's management has reviewed and compared the numerical information, presentations and disclosures to ensure these financial statements been prepared in accordance with International Accounting Standards approved for application 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. As a result of this review no material differences have been found, related to the carrying amount of the assets and liabilities and the amounts reported in the income statement.

(c) Basis of preparation

These financial statements are prepared in thousands of BGN. Historical cost has been used as basis for preparation with the exception of long-term investments held for sale, which have been presented at fair value, determined based on an active stock exchange market.

The accounting policies have been consistently applied by the Company throughout all periods presented in the financial statements.

At the date of preparation of the non-consolidated financial statements the Company has not consolidated the financial statements of its subsidiaries. In accordance with the requirements of the national accounting legislation the consolidated financial statements will be prepared by 30 June 2006.

(d) 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 restatements result from the more detailed presentation of the balance sheet and income statement items in the notes to the financial statements.

(e) Reporting currency

The functional and reporting currency of the Company is the Bulgarian lev. With the introduction of the EURO as the official currency of the European Union the Bulgarian lev has been pegged to the EURO at a ratio BGN 1.95583 for EUR 1.

(f) Foreign currency transactions

Transactions in foreign currency are recorded in Bulgarian levs at the exchange rate effective on the date of the transaction. At the balance sheet date monetary assets and liabilities denominated in foreign currency have been translated to Bulgarian levs applying the foreign exchange rate on that date. Foreign currency gains and losses arising as a result of translation are taken to the Income statement.

(g) Property, plant and equipment and intangible assets

Property, plant and equipment are valued at cost less the accumulated depreciation and impairment losses.

No impairment of assets has been made at 31 December 2005, as their carrying amounts do not differ materially from their fair values.

Newly acquired property, plant and equipment are reported at cost, which includes the purchase price and costs incurred to bring the asset into use.

The adopted value materiality threshold, below which tangible assets are reported as current expenses upon acquisition is BGN 500.

When determining whether to classify subsequent expenditure on property, plant and equipment as costs increasing the carrying amount of the assets or as current operating expenses, consideration is given as to whether these costs are related to an increase of the economic benefit in excess of the initially assessed efficiency of the asset.

(g) Property, plant and equipment and intangible assets, continued

The Company applies the straight line depreciation method for property, plant and equipment, considering their useful life, determined by the Company's management by groups, as follows:

- Computers and computer equipment 2-5 years
- Transport vehicles (cars) 5 years
- Fixtures and fittings and all others 6-10 years

(h) Intangible assets

Non-current intangible assets acquired by the Company are presented at cost, less the accumulated amortisation and impairment loss, if any.

The amortisation of intangible assets is charged based on the straight-line amortisation method depending on their estimated useful lives.

- Patents and trademarks 7 years
- Software 7 years

(i) Long-term investments in subsidiaries

Subsidiaries are the entities over which the Company exercises control. Control exists where the Company is in position, directly or indirectly, to direct the financial and operating policies of the subsidiary, in order to benefit from its operations. The cost method is used to report these investments. Upon acquisition the investment is initially recorded at cost, which includes the cash amounts paid and the costs related to the acquisition: charges, commissions, fees, non-refundable taxes, etc.

The share of the attributable net profit of the investee, i.e. the dividend following its distribution, is reported as current financing income.

(j) Long-term investments in associates

Associates are entities where the Company has significant influence, but not control, on the financial and operating policies. Current reporting is at cost. Dividend income is recognised following establishment of entitlement.

(k) Financial assets available for sale

Financial assets available for sale valued at their fair value have been presented as other long-term financial assets, with the resulting gains or losses being taken to the income statement. Financial assets which fair value cannot be measured reliably are valued at depreciated cost or at cost. Dividends received therefrom are taken to the income statement.

(l) Financial assets held for trading

Financial assets held for trading include debenture and equity securities, as well as loans and receivables which the Company has acquired with the intention of realising short-term profit.

Financial instruments held for trading are presented as current financial assets and are measured at fair value. Fair value measurement gains and losses are taken to the income statement as incurred.

(m) Trade and other receivables

For sales realised under share purchase-sale agreements and stated payment terms, the portion of the receivable which should be paid within one year of the balance sheet date as per the contractual terms is presented as short-term. Receivables on cash loans granted under art. 280, para 1 of the Commercial Act are presented similarly.

Trade and other receivables are presented at amortised cost less the impairment loss (see Accounting policies (r)).

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

(n) Cash

Cash includes cash on hand and at banks and cash on deposits placed with local banks.

For the purposes of the statement of cash flows:

- Cash proceeds from customers and cash payments to suppliers are presented gross, including VAT (20%)
- Cash flows for acquisition and sale of equity shares and stocks in companies in which the Holding invests, as well as dividends received from them are reported as proceeds from and payments for operating activities.
- Cash flows related to the granting of loans to subsidiaries under art. 280 of the Commercial Act and the proceeds upon their repayment are reported as proceeds from and payments for operating activities.
- The underwriting of cash from the issue of equity securities or debenture securities, short-term or long-term loans from lenders external for the Company's operations, and their repayment, as well as the payment of dividends are reported as proceeds from and payments for financing activities.

(o) Share capital

The share capital is presented at nominal amount and it corresponds to the current court registration of the Company.

(p) Payables on loans received

Loans received are initially recorded at cost, less the respective transaction expenses. Following initial recording loans received are stated at amortised cost, while any difference between the origination cost and the subsequent measurement are taken to the income statement in the period of origination of the loan based on the effective interest rate.

(q) Trade and other payables

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

(r) Impairment of assets

The carrying amount of the Company's assets, with the exception of investment properties, 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 assessment is made as to the recoverable amount of the asset.

For intangible assets, not ready for use yet, the assessment of the asset's recoverable amount is made at each balance sheet date. Impairment loss is recognised if the carrying amount of the asset or the cash generating unit to which the asset belongs exceeds its recoverable amount. Impairment losses are recognised to the income statement.

(i) Measurement of the recoverable amount

The Company applies a write-down policy for receivables while reviewing and analysing the individual receivables.

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 discount rate before tax, reflecting the current assessments of the market, time value of money and the risk specific to the asset. 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 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.

In respect of other assets impairment loss is reversed if there is a change in the assessment used to determine the recoverable amount.

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

(s) Income and expense recognition

(i) Operating revenue

Financial and non-financial income and expenses are charged as incurred, regardless of cash proceeds and payments.

(ii) Interest income

Interest income and expenses are charged by using the effective interest rate.

(ii) Dividend income

Dividend income is recognised when the entitlement of the shareholder to receive the payment is established.

(t) Income taxes

Income taxes for the year include current and deferred taxes. Income taxes are recognised in the income statement unless related to items, which are taken directly to equity, while in such a case the taxes are presented in equity as well.

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: positive goodwill not recognised for tax purposes, recording 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 the tax rate in effect at the balance sheet date.

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

INDUSTRIAL HOLDING BULGARIA PLC
 NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2005

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1. Income from interest, dividends and investment transactions

<i>In thousands of BGN</i>	2005	2004
Interest income	289	396
Dividend income	862	684
Unrealised loss on revaluation of financial assets held for trading	(206)	-
Income from sale of shares	8,955	1,164
Carrying amount of shares written-off	(1,906)	(962)
Expenses on sale of shares	(52)	(5)
Other	-	74
	<u>7,942</u>	<u>1,351</u>

The major portion of interest income is related to interest-bearing receivables from subsidiaries, as well as from other entities in respect of deferred payments on share sale agreements.

In 2005 income is reported from dividends distributed by ZMM Bulgaria Holding AD at the amount of BGN 671 thousand, Sano Maritime Holding AD at the amount of BGN 160 thousand and Bulgartabac Holding AD at the amount of BGN 31 thousand.

As a result of a decrease in the stock exchange price of Bulgartabac Holding AD shares at 31 December 2005 the Company revalued the shares remaining in its portfolio and reported a loss on revaluation of financial assets of BGN 206 thousand.

During the current year the Company has realised the following sales of shares:

- sale of 100,000 shares of the capital of Dockyard Odesos Plc,
- sale of 76,038 shares or 21% of the capital of Maritime Holding AD,
- sale of 17,312 shares of the capital of Bulgartabac Holding AD,
- sale of 49,999 shares representing 100% of the capital of Danube River Shipping AD,
- sale of the shares of Build 2000 EOOD.

The reported net income from the sales amounts to BGN 6,997 thousand while the carrying amount of the shares sold, as well as the costs incurred in relation to the sales have been deducted from the total income.

2. Other operating revenue

<i>In thousands of BGN</i>	2005	2004
Income from sale of services	113	673
Others	-	17
	<u>113</u>	<u>690</u>

Income from sales of services is related to rendered consulting services to the companies within the Group of the Holding and to external companies.

3. Personnel expenses

<i>In thousands of BGN</i>	2005	2004
Expenses for remuneration	150	160
Social security expenses	55	51
	<u>205</u>	<u>211</u>

4. Other operating expenses

<i>In thousands of BGN</i>	2005	2004
Depreciation and amortisation	57	43
Expenses on materials	17	20
Carrying amount of assets sold	-	12
Other operating expenses	74	70
	<u>148</u>	<u>145</u>

5. Net financing expenses

<i>In thousands of BGN</i>	2005	2004
Foreign currency losses	362	628
Foreign currency gains	(422)	(450)
Debenture loan interest expense	327	163
Bank loan interest expense	127	152
Other expenses	2	4
	<u>396</u>	<u>497</u>

6. Tax expenses

<i>In thousands of BGN</i>	2005	2004
Current tax expenses	-	(13)
<i>Temporary tax differences income/expense</i>		
Origination and reversal of temporary tax differences	31	(7)
Decrease in tax rates	-	-
	<u>31</u>	<u>(20)</u>

Current tax expenses include the accrued income tax at a tax rate of 15% (2004: 15%). The temporary tax differences are calculated on the basis of comparison with the effect of the tax rate applicable during the next period, which is also 15%.

7. Property, plant and equipment

<i>In thousands of BGN</i>	Computers and computer equipment	Transport vehicles	Fixtures and fittings and other	Fixed assets under construction	Total
<i>Carrying amount</i>					
Balance at 1 January 2004	116	72	77	5	270
Additions	1	31	-	115	147
Transfers	5	110	5	(120)	-
Disposals	(42)	(41)	-	-	(83)
Balance at 31 December 2004	<u>80</u>	<u>172</u>	<u>82</u>	<u>-</u>	<u>334</u>
Balance at 1 January 2005	80	172	82	-	334
Additions	-	-	6	-	6
Disposals	(8)	(33)	(6)	-	(47)
Balance at 31 December 2005	72	139	82	-	293
<i>Depreciation and impairment loss</i>					
Balance at 1 January 2004	92	44	46	-	182
Depreciation charge	16	13	11	-	40
Depreciation on disposals	(42)	(29)	-	-	(71)
Balance at 31 December 2004	<u>66</u>	<u>28</u>	<u>57</u>	<u>-</u>	<u>151</u>
Balance at 1 January 2005	66	28	57	-	151
Depreciation charge	12	35	6	-	53
Depreciation on disposals	(8)	(25)	-	-	(33)
Balance at 31 December 2005	70	38	63	-	171
<i>Carrying amount</i>					
At 1 January 2005	14	144	25	-	183
At 31 December 2005	2	101	19	-	122

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

8. Intangible assets

<i>In thousands of BGN</i>	Software	Patents and trademarks	Others	Total
Carrying amount				
Balance at 1 January 2005	19	7	1	27
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at 31 December 2005	<u>19</u>	<u>7</u>	<u>1</u>	<u>27</u>
Amortisation and impairment loss				
Balance at 1 January 2005	16	5	1	22
Amortisation charge	2	1	-	3
Amortisation on disposals	-	-	-	-
Balance at 31 December 2005	<u>18</u>	<u>6</u>	<u>1</u>	<u>25</u>
Carrying amount				
At 1 January 2005	<u>3</u>	<u>2</u>	<u>-</u>	<u>5</u>
At 31 December 2005	<u>1</u>	<u>1</u>	<u>-</u>	<u>2</u>

9. Investments in subsidiaries

Investments held by the Company at 31 December 2005 and 31 December 2004 are as follows:

<i>In thousands of BGN</i>	31 December 2005		31 December 2004	
	Amount of ownership	Percentage of ownership	Amount of ownership	Percentage of ownership
ZMM Bulgaria Holding AD	7,885	99.998	7,885	95.998
Privatengineering AD	2,800	97.22	2,800	97.22
Dockyard Bourgas AD	1,776	91.72	1,775	91.44
Augusta Mebel AD	823	97.86	823	97.86
Bulyard AD	14,307	51.5	-	-
Maritime Holding AD	400	61.00	590	90.00
International Industrial Holding Bulgaria Plc	130	100.00	130	100.00
KLVK AD	44	66.844	44	66.844
Hydropower Bulgaria AD	34	67.00	34	67.00
Build 2000 EOOD	-	-	5	100.00
	<u>28,199</u>		<u>14,086</u>	

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

9. Investments in subsidiaries, continued

Sales

During the reporting period the Holding sold 76,038 shares from the capital of Maritime Holding (29% of the company's capital). The gain from the transaction amounts to BGN 149 thousand.

During the first quarter of 2005 the Company established Danube River Shipping Joint-Stock Company with a capital of BGN 50 thousand. The company was established for the purpose of privatisation of Bulgarian River Shipping, but subsequently the intentions of the Holding's Management changed and the company has been sold for BGN 50 thousand.

Due to the fact that Build 2000 EOOD did not develop the expected operations, the latter has been sold.

Acquisitions

In February 2005 Industrial Holding Bulgaria Plc acquired from Electromachinery Holding AD 2,762,183 shares representing 11.5% of the capital of Bulyard AD for the amount of BGN 3,830 thousand.

In April 2005 Industrial Holding Bulgaria Plc acquired from Dockyard Odesos AD 3,602,847 shares representing 15% of the capital of Bulyard AD for the amount of BGN 4,472 thousand.

By virtue of these transactions the Holding, by acquiring 51.50% of the capital of the latter, became its majority shareholder, as a result of which it acquired indirect control of Bulyard Shipbuilding Industry, Varna, a company 75% owned by Bulyard AD. In 2004 investments in Bulyard AD have been reported as investments in associates (see note 10).

Through the acquisition of 388 new shares of Dockyard Port Bourgas AD the share of the Holding in the company's capital reached 91.72%.

10. Investments in associates

<i>In thousands of BGN</i>	31 December 2005		31 December 2004	
	Amount of ownership	Percentage of ownership	Amount of ownership	Percentage of ownership
Dunav Tours AD	2,761	48.395	2,747	45.01
Chimremontstroy AD	476	25.86	476	25.86
Bulyard AD	-	-	6,005	25.00
Dockyard Odesos AD	1,585	30.00	-	-
	<u>4,822</u>		<u>9,228</u>	

During the first six months of 2005 Industrial Holding AD acquired 14,373 shares of the capital of Dunav Tours AD at the amount of BGN 14 thousand, thus the shareholding in the capital of the company reached 48.395%.

In March 2005 the management of the Holding made a decision to participate in the capital of Odesos PBM AD, Varna with activities related to port services and the accompanying activities from / to vessels and land transportation vehicles. The capital of Odesos PBM AD is distributed in 5,280,000 shares. Industrial Holding AD holds 30% of the share capital.

11. Long-term receivables from related parties

<i>In thousands of BGN</i>	2005	2004
Elprom ZEM AD	-	138
Leyarmach AD	165	-
KLVK AD	-	2,561
	<u>165</u>	<u>2,699</u>

The receivable amounting to BGN 165 thousand from related enterprises represents cash loan granted to the subsidiary Leyarmach AD in accordance with art. 280, para 1 of the Commercial Act.

12. Financial assets available for sale

<i>In thousands of BGN</i>	31 December 2005		31 December 2004	
	Amount of ownership	Percentage of ownership	Amount of ownership	Percentage of ownership
Dockyard Odesos	-	-	1,100	17.05
Transbalkan Oil Pipeline Bulgaria AD	107	14.29	429	14.29
Elpo AD	121	17.99	121	17.99
	<u>228</u>		<u>1,650</u>	

The Company holds ordinary registered shares in the above mentioned commercial entities, which the management has classified as non-current assets available for sale. The Company has this investment in its portfolio for an undefined period of time and sells them if necessary to contribute to its working capital or in case of better selling price.

In accordance with IAS 39 the Company reports investments available for sale at their fair value, when reliably measurable. For entities listed at the stock exchange active trade is required. When reliable measurement of the fair value is impossible, the acquisition cost method is used for the investments or the most recent valuation.

During the past period all 100,000 shares held by the Holding in the capital in Dockyard Odesos AD have been sold (see note 1).

Due to the Transbalkan Oil Pipeline Bulgaria AD being unable to fulfil the objective for which it was established, in compliance with the Articles of Association, the company is required to initiate liquidation proceedings. The obligation to contribute a further BGN 321 thousand in the capital was therefore eliminated.

13. Other long-term receivables on share sale agreements

<i>In thousands of BGN</i>	2005	2004
Chimremontstroy Engineering AD	313	626
MAK AD	210	280
	<u>523</u>	<u>906</u>

13. Other long-term receivables on share sale agreements, continued

Receivables for share sale agreements amounting to BGN 523 thousand are presented as other long-term receivables, which according to the repayment schedule should be repaid over a period of more than one year after the balance sheet date.

14. Deferred tax asset

<i>In thousands of BGN</i>	2005	2004
Deferred tax asset	31	-
	<u>31</u>	<u>-</u>

During the year the Company has recognised deferred tax asset on the impairment of current financial assets amounting to BGN 206 thousand (see note 1).

15. Trade and other receivables

<i>In thousands of BGN</i>	2005	2004
Receivables on share sale agreements	399	385
Other receivables from customers	3	146
Refundable tax	44	37
Advances to suppliers	12	-
Prepaid services	11	13
Other receivables	13	11
	<u>482</u>	<u>592</u>

16. Receivables from related parties

<i>In thousands of BGN</i>	2005	2004
<i>Receivables on cash loans granted</i>		
Private Engineering AD	260	3
Leyarmach AD	1	166
Elprom ZEM AD	138	461
KLVK AD	-	14
Augusta Mebel	-	35
Other short-term loans	-	10
	<u>399</u>	<u>689</u>
Dividends receivable from Maritime Holding	3	119
Services rendered	3	4
Other receivables – Bulyard AD	48	71
	<u>453</u>	<u>883</u>

Receivables from related parties are associated mainly with loans granted and receivables on services rendered.

17. Financial assets held for trading

<i>In thousands of BGN</i>	2005	2004
Shares at acquisition cost	1,516	-
Impairment	(206)	-
Amount at 31 December	<u>1,310</u>	<u>-</u>

During the year the Company has acquired 64,100 ordinary shares in Bulgartabac Holding AD at the amount of BGN 2,077 thousand, with a purchase price of BGN 32.40 per share. During the year 17,312 shares have been sold (see also note 1).

At the balance sheet date the Company holds 46,788 shares amounting to BGN 1,310 thousand. The shares are valued at the amount at which they are traded at the Bulgarian Stock Exchange as at 31 December 2005 (BGN 28.0 per share). As a result impairment compared to the acquisition cost is reported (see also note 1).

18. Cash and cash equivalents

<i>In thousands of BGN</i>	2005	2004
Cash in hand	5	1
Cash at banks	110	156
Deposits with banks	2,929	4,534
	<u>3,044</u>	<u>4,691</u>

Cash in BGN is valued at its nominal value, and cash in foreign currency - at the closing exchange rate of BNB at the end of the reporting period. Foreign exchange gains and losses are reported as current income and expense respectively.

Deposits with banks are presented at amortised cost.

The Company does not have blocked cash, which is unavailable for free operation at the balance sheet date.

19. Share capital

The capital of the Company comprises 21,003,235 registered paperless voting shares with a face value of BGN 1.

The share capital is subscribed at its face value and is fully paid-in. There are no preference shares and bearer shares.

Shareholder	Number of shares 31 December 2005	2005 %	2004 %
Venside Enterprises AD	7,626,799	36.31	36.31
Other commercial entities	4,297,078	20.46	5.45
Natural persons	9,079,358	43.23	58.24
	<u>21,003,235</u>	<u>100.00</u>	<u>100.00</u>

20. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2005 is based on the net yield attributable to the holders of ordinary shares, amounting to BGN 7,170 thousand (2004: profit of BGN 1,048 thousand) and the average weighted number of ordinary shares outstanding for the year ended 31 December 2005 of 21,003,235 (2004: 21,003,235). The calculation is made as follows:

<i>In thousands of BGN</i>	2005	2004
Net profit for the year	7,170	1,048
Net profit attributable to ordinary shareholders	<u>7,170</u>	<u>1,048</u>

<i>In thousands of BGN</i>	2005	2004
Ordinary shares issued at 1 January	21,003	21,003
Shares issued in 2004 and 2005	-	-
Ordinary shares at 31 December	<u>21,003</u>	<u>21,003</u>
Average weighted number of shares at 31 December	<u>21,003</u>	<u>21,003</u>

21. Trade and other payables

21. (a) Long-term payables

<i>In thousands of BGN</i>	31 December 2005	31 December 2004
Secured bank loan	-	1,244
Payables on debenture loan	5,233	5,221
	<u>5,233</u>	<u>6,465</u>

The parameters of the issue of convertible bonds issued by Industrial Holding Bulgaria Plc are as follows:

- *Type:* convertible registered dematerialised bonds;
- *Total number of bonds:* 5 250 805;
- *Total face value:* BGN 5,250,805
- *Face value:* BGN 1
- *Issued value:* BGN 1
- *Term:* 3 years
- *Interest:* 6% per annum, payable in 6-month instalments.
- *Date of conclusion of the debenture loan:* 2 July 2004
- *Dates of interest payments:* 25 January 2005, 25 July 2005, 25 January 2006, 25 July 2006, 25 January 2007, 2 July 2007.
- *Date of principal payment:* 2 July 2007
- *Bank, servicing the payments:* Commercial Bank Allianz Bulgaria

21. Trade and other payables, continued

21. (a) Long-term payables, continued

At the date of the financial statements two out of the total six interest payments have been made.

At the beginning of October 2005 the Company fully repaid its payable to Bank DSK AD on a bank loan granted amounting to USD 2 mln. with a repayment balance at 30 September 2005 of BGN 1,725 thousand.

21. (b) Short-term payables

<i>In thousands of BGN</i>	31 December 2005	31 December 2004
Payable on subscribed share contributions	-	321
Payables on options sold to shareholders	116	116
Interest on debenture loan	158	158
Other short-term payables	11	14
	<u>285</u>	<u>609</u>
Current portion of bank loan	-	1,150
	<u>285</u>	<u>1,759</u>

22. Dividends payable

In March 2005 due to expiry of the term of prescription and following a decision by the Company's Management Board, outstanding dividends amounting to BGN 1,323 thousand, distributed from the 1997 profit, have been written off. The write-off was reported in the Reserves Fund.

23. Related party transactions

<i>In thousands of BGN</i>	Type of relation	2005
<i>Interest income</i>		
- Private Engineering AD	Subsidiary	28
- Leyarmach AD	Indirect control	15
- Elprom ZEM AD	Indirect control	37
- Augusta Mebel AD	Subsidiary	2
- KLVK AD	Subsidiary	93
<i>Income from sale of services</i>		
- Dockyard Port Bourgas	Subsidiary	7
- Dunav Tours AD	Associate	24
- Elprom ZEM AD	Indirect control	58
- Dunav Tours Hotels AD	Associate	24
Expenses for remuneration and social security of the Executive Director, the Management and Supervisory Boards		61

23. Related party transactions, continued

<i>In thousands of BGN</i>	Type of relation	2005
<i>Cash loans granted</i>		
- Private Engineering AD	Subsidiary	922
- Elprom ZEM AD	Subsidiary	160
- KLVK AD	Subsidiary	1,352
<i>Cash loans recovered</i>		
- Elprom ZEM AD	Indirect control	620
- KLVK AD	Subsidiary	3,913
- Augusta Mebel AD	Subsidiary	35
- Private Engineering AD	Subsidiary	622
Management guarantees withheld		2

24. Financial instruments

The operating activities of the Company creates prerequisites for interest rate risk, credit risk and foreign currency risk.

Interest rate risk

The amount of borrowed resources is significantly lower than the equity of the Company. During the reporting period Industrial Holding Bulgaria Plc carries out its operations mainly with funds from its equity or fixed interest rate borrowings and it is not exposed to material interest rate risk.

Effective interest rate and analysis of revaluation

In respect of yield bearing financial assets and interest-bearing financial liabilities, the following table demonstrates the effective interest rate at the balance sheet date.

<i>In thousands of BGN</i>	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
Cash	18	3%	3,044	3,044	-	-	-
Debenture loan	21	6.26%	(5,233)	(158)	-	-	(5,233)
			<u>(2,189)</u>	<u>2,886</u>	-	-	<u>(5,233)</u>

Credit risk

The Company is exposed to credit risk to the extent there is an exposure to receivables on loans granted. The Company has granted loans to subsidiaries in which it exercises control on the operating and financial policies.

Foreign currency risk

The Company is exposed to foreign currency risk as it carries out significant transactions denominated in foreign currency. The foreign currency risk of the Company is mainly related to US Dollar denominated transactions.

25. Contingent liabilities

At 31 December 2005 the Company has provided guarantees for payables of subsidiaries in the form of guarantees on promissory notes at the total amount of BGN 298 thousand, of which BGN 100 thousand is in respect of a bank loan and BGN 198 thousand on a performance bond.

Industrial Holding Bulgaria Plc. ensured the issuance by Bank DSK EAD of bank guarantees amounting to EUR 671 thousand to secure payables of Elprom ZEM to a customer, for which guarantees are secured by a second specific pledge of the business of Dockyard Port Bourgas AD – a subsidiary of the Holding.

The Company's management does not believe there are indications that the payables would not be realised, therefore no provisions have been made for these contingent liabilities.

26. Subsequent events

The subsidiary Private Engineering AD fully repaid its payable to Industrial Holding Bulgaria Plc in relation to a cash loan granted (note 16).

On 25 January 2006 the third interest payment on the debenture loan was made, out of a total of 6 interest payments, which should be made in respect of the issued bonds.