Consolidated Financial Statements

for the year ended 31 December 2005
With Independent Auditors' Report Thereon

INDUSTRIAL HOLDING BULGARIA

Independent Auditors' Report

To the shareholders of
Industrial Holding Bulgaria PLC

Sofia, 28 June 2006

We have audited the accompanying consolidated balance sheet of Industrial Holding Bulgaria PLC ("the Group") as of 31 December 2005 and the related consolidated income statement, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our audit opinion.
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of 31 December 2005, and of the results of its operations, its cash flows, and changes in equity for the year then ended in accordance with International Financial Reporting Standards adopted by the Commission of the European Union, as disclosed in significant accounting policies, note (a).

KPMG Bulgaria OOD

Steve Nutley
Partner

Dobrina Kaloyanova
Registered Auditor

0293 Добрина Калоянова
Регистриран одитор

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37, Fridtjof Nansen Str.
1142 Sofia
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София
Рег. №045

Consolidated income statement

For the year ended 31 December 2005
In thousands of BGN

	Note	2005	2004
Revenue	2	70,097	48,117
Other operating revenue	3	22,033	1,414
Increase/(decrease) in work- in- progress	4	9,071	1,571
Cost of materials		(32,983)	(22,844)
Hired services		(13,918)	(7,030)
Depreciation and amortization		(2,855)	(1,666)
Personnel expenses	8	(20,122)	(11,617)
Cost of assets sold	5	(1,043)	(293)
Other operating expenses	6	(2,984)	(1,284)
Profit from operations		27,296	6,368
Net financing income/(expenses)	9	7,017	(609)
Income from associates	13	1,416	2,938
Profit before tax		35,729	8,697
Income tax expense	10	(4,180)	(803)
Profit after tax		31,549	7,894
Minority interest		(1,651)	(232)
Net profit for the year		29,898	7,662
Basic and diluted earnings per share (BGN)	22	1.42	0.36

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 75 to 95.

Daneta Zheleva
Executive Director

Toshka Vassileva
Chief Accountant

Steve Nutley
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		..59	47,317
		21,303	6,293
	23	503	2,087
	23	5,233	5,221
	27	24	137
	24	2,686	1,378
	16	1,348	1,541
		9,794	10,364
	23	2,052	2,990
	25	40,322	10,85
	24	236	1
		42,610	14
		155,766	7

in con ction with the notes

Consolidated statement of cash flows

For the year ended 31 December 2005
In thousands of BGN

	Note	2005	2004
Operating activities			
Net profit for the year		29,898	7,662
Adjustments for:			
Depreciation and amortisation	11,12	2,855	1,666
Provision for unused paid leaves		1,378	100
Foreign exchange losses, net	9	166	292
Interest expense	9	673	571
Interest income	9	(438)	(147)
Dividend income	13	(1,416)	-
(Income)/loss from associates		283	(2,938)
(Gain)/loss on disposal of subsidiary	3a	(20,469)	-
(Gain)/loss on sale and writing-off of property, plant and equipment		(6,828)	417
(Loss)/gain derived from investments held for sale		134	-
Income tax expense	10	4,180	803
Minority interest		1,651	232
Amortisation of goodwill	12	-	(600)
Operating profit before changes in working capital and provisions		12,067	8,058
(Increase)/decrease in trade and other receivables		(28,852)	1,128
(Increase)/decrease in inventories		(3,105)	(1,054)
Increase/(decrease) in trade and other payables		20,409	(1,934)
Increase in provisions	24	-	(295)
Cash generated from the operations		519	5,903
Interest paid		(381)	(382)
Income taxes paid		-	(608)
Cash flows from operating activities		138	4,913
Investing activities			
Proceeds from sale of plant and equipment		13,579	178
Proceeds from sale of shares in subsidiaries		339	-
Interest received		438	147
Acqusition of subsidiary, net of cash disposed	12	(7,725)	-
Proceeds from sale of investments available for sale		7,928	-
Sales of investment held for trading		639	-
Acquisition of associates		(1,600)	(6,773)
Acquisition of property, plant and equipment		(2,075)	(5,740)
Acquisition of other investments		(2,083)	-
Dividends received		1,526	1,584
Cash flows from investing activities		10,966	(10,604)

Consolidated statement of cash flows, continued

For the year ended 31 December 2005 In thousands of BGN	Note	2005	2004
Financing activities			
Loans received		2,059	9,611
Loans repaid		(5,438)	(1,189)
Payments for lease contracts		(65)	-
Other financial expenses paid		(1,109)	-
Dividends paid		(179)	-
Cash flows from financing activities		(4,732)	8,422
Net increase in cash and cash equivalents		6,372	2,731
Cash and cash equivalents at 1 January	20	8,103	5,372
Cash and cash equivalents at 31 December	20	14,475	8,103

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 75 to 95.

Daneta Zheleva
Executive Director

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

Toshka Vassileva
Chief Accountant

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №045 "КПМГ - България" ООД

Consolidated statement of changes in equity

For the year ended 31 December 2005 In thousands of BGN	Note	Share capital	Additional and legal reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2004		21,003	4,852	6,558	6,866	39,279
Recognised profit for the current year		-	-	-	7,662	7,662
Allocation of statutory reserves		-	223	-	(223)	-
Change of tax rate		-	-	447	-	447
Transfer of reserves		-	(149)	-	149	-
Other movements		-	(11)	(23)	(37)	(71)
Balance at 31 December 2004		21,003	4,915	6,982	14,417	47,317
Change in the opening balances due to:						
Adjustments from restated subsidiaries results	21	-	-	-	(582)	(582)
Adjustments from acquisitions	13	-	-	-	(101)	(101)
Other adjustments from 2004	21	-	-	-	(19)	(19)
Change in the accounting policy in compliance with IFRS 3	33	-	-	-	4,177	4,177
Adjusted balance as at 1 January 2005		21,003	4,915	6,982	17,892	50,792
Recognised profit for the current year		-	-	-	29,898	29, 898
Allocation of statutory reserves		-	383	-	(383)	-
Allocation of additional reserves		-	137	-	(137)	-
Deferred tax liability as recognised in equity		-	-	(4)	-	(4)
Revaluation reserve for assets written-off		-	-	(28)	28	-
Dividend write-off for 1997 profit		-	1,323	-	-	1,323
Other movements		-	27	-	23	50
Balance at 31 December 2005		21,003	6,785	6,950	47,321	82,059

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 75 to 95.

Daneta Zheleva
Executive Director

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

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София
Рег. №045
"КПМГ - България" ООД

Significant accounting policies

Industrial Holding Bulgaria PLC (the Company or the Holding) is a joint stock company domiciled in Bulgaria, Sofia 1000, 47, Vassil Levski Blvd. The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.
The operations of the Group include production and trading of heavy machinery, shipbuilding, shiprepair and transportation, furniture production, operations with real estates, maintenance and repair and other services. In 2004 the Group extended its activities by acquiring from one of its subsidiaries a Certificate for exploitation of a port for public transport with regional importance. In 2005 the Company invested in - Odesos PBM AD which has a main activity of providing port services.

Industrial Holding Bulgaria PLC as well as some of the subsidiaries are traded on the Bulgarian Stock Exchange - Sofia.
The financial statements were approved by the management of the Group on 27 June 2006.

(a) Statement of compliance

The consolidated financial statements for the period ending 31 December 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union Committee. Under Accountancy Act in force as from 1 January 2005, the International Financial Reporting Standards (IFRS) adopted by the European Union Committee are applicable in Bulgaria. The IFRS should be officially translated in Bulgarian language, as well as to be adopted by the Council of Ministers of Bulgaria and published in the State Gazette. As at date of the approval of the financial statements by the Management of the Company, the adopted IFRS by the European Union Committee were not adopted by the Council of Ministers and were not published in the State Gazette in Bulgarian. In view of this fact, the present financial statements have been prepared on the basis of IFRS adopted by the European Union applicable for 2005 as they were published by the Official Journal of the European Union in English language.

The management of the Company reviewed and compared the financial information, presentations and disclosures in case the present financial statements would have been prepared in compliance with International Accounting Standards adopted in Bulgaria by the Council of Ministers with decree N21/04 February 2003 and published in State Gazette, issue 13, 2003. The reported differences which relate to the values of the positive and negative goodwill have been presented in note 33.

(b) Basis of preparation

The financial statements are presented in Bulgarian Lev (BGN), rounded to the nearest thousand. Historical cost has been used as a basis for preparation of the financial statements with the exception of land, buildings, plant, machinery and equipment, which are presented at a revalued amount, reduced with the accumulated depreciation and impairment losses, as well as financial assets held for trading and financial assets available for sale, which are presented at fair value.
The accounting policies have been consistently applied by Group enterprises and are consistent with those used in the previous year except for positive and negative goodwill arising in the current year and previous periods which have been recorded in compliance with IFRS 3 Business combinations (refer to note 33).

(c) Comparative information

When the presentation or classification of items in the financial statements was amended, comparative amounts have been reclassified, to ensure comparability with the current period. Such reclassifications have resulted from the more detailed presentation of 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 that control ceases.

(ii) Associates

Associates are the 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 of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of 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) Transactions eliminated on consolidation

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

(e) Foreign currency

Transactions in foreign currencies are translated to BGN at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The Company has not performed transactions concerning non-monetary assets and liabilities denominated in foreign currencies.

Significant accounting policies, continued

(f) Property, plant and equipment

(i) Owned assets

Following a decision of the Managing Board the Group's land, buildings, plant and machinery of continuing operations were valued by an independent valuer as at 31 December 2002.
The Group adopted a policy to carry those assets at revalued amount under the revaluation model allowed in IAS 16, Property, plant and equipment. Items of land, buildings, machinery and equipment are stated at fair value determined periodically by an independent registered valuer. When the property, plant and equipment is revalued, any depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly to equity as revaluation surplus. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized either as a decrease of its existing revaluation reserve or when this is insufficient it is expensed in the income statement.
The related revaluation reserve is transferred to retained earnings on disposal of the respective asset.
Items of vehicles, fixtures and fittings, other tangible assets and assets under construction are stated in the balance sheet at their acquisition cost less accumulated depreciation and impairment losses.
Depreciation is provided on a straight-line basis over the expected useful lives of non-current assets.

The newly acquired non-current assets are valued at acquisition cost which includes purchase price and expenses incurred to bring the asset into use. The cost of self-constructed assets includes the cost of materials and direct labour. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of assets under construction includes cost of materials, hired services, direct labour and relevant overheads.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (refer to accounting policy l).

(iii) Subsequent expenditure

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

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the assets are as follows:

buildings	7 - 50 years
plant and equipment	4 - 20 years
vehicles	2 - 10 years
fixtures and fittings	5 - 10 years

Assets are depreciated from the month following the month when they are acquired. For internally constructed assets depreciation begins from the month following the month when they are put into use.

(g) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is stated at cost less accumulated impairment losses (refer to accounting policy l). Goodwill is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

(ii) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets and liabilities acquired over the cost of acquisition. From 1 January 2005, negative goodwill is recognised directly in the Income statement as it occurs. Prior to 2005, any negative goodwill that related to an expectation of future losses and expenses that was identified in the acquisition plan and could be measured reliably, but which had not yet been recognised, was recognised in the income statement when the future losses and expenses were recognised. Any amortised negative goodwill at 31 December 2004 was written off against retained earnings at 1 January 2005 (see note 33).

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (refer accounting policy l). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

patents and trademarks	7 years
software products	5 years

(h) Trade and other receivables

Trade and other receivables are stated at amortised cost less any amounts, which are not expected to be collected. The latter are presented as impairment losses on the basis of the calculated recoverable amount of trade receivables.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle for materials and work in progress. In the case of manufactured inventories (produced goods), cost also includes direct labour, social security and depreciation expenses. These expenses are allocated to products based on normal operating capacity.

The share of overheads included in cost of production is based on direct labour.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Financial instruments

(i) Classification

Trading instruments are those that Group principally holds for the purpose of short-term profit taking.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes or held to maturity.

(ii) Recognition

Group recognises financial assets held for trading and available-for-sale assets on trading date. Gains and losses arising from changes in fair value of the assets are recognised in the income statement.

Investments held for trading and available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. Investments held-to-maturity are recognised/derecognised on the day they are transferred to/by the Group.

(iii) Measurement

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. Where the Group has the positive intent and ability to hold investments to maturity, they are stated at amortised cost less impairment losses. Other investments classified as being available-for-sale are classified as long-term and are stated at fair value, with any resultant gain or loss being recognised in the income statement. If the fair value can not be reliably measured the investment is valued at either acquisition cost or at the value as per latest valuation.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless there is a previous revaluation reserve for the same asset. Any impairment of a revalued asset is treated as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity investments and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Short-term receivables are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of held-to-maturity securities or receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Share capital and reserves

The capital of the Group is presented at historical value at the date of registration.
Additional and legal reserves comprise those of the parent company, as well as the share of subsidiaries' reserves allocated after the date of acquisition.
Revaluation reserves are allocated as at the date of revaluation of property, plant and equipment.

(n) Interest-bearing borrowings

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

(o) Liability for retirement compensations to employees

The Group accrues for provisions for retirement compensations in accordance with the requirements of IAS 19 "Employee benefits" (see note 24).

(p) Provisions

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

(q) Trade and other payables

Trade and other payables are stated at their amortised cost.

(r) Revenue

(i) Goods sold and services rendered

Revenue from the sale of finished goods and merchandise is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contact. The stage of completion is assessed by reference to surveys of work performed. An expected loss on a contract is recognised immediately in the income statement.

(s) Net financing costs

Net financing income/(expense) comprise interest payable on borrowings calculated using the effective interest rate method, interest payable on finance leases, foreign exchange gains and losses and bank charges that are recognised in the income statement. Interest income is recognised in the income statement as it occurs, taking into account the effective yield of the assets.

(t) Net financing costs

All interest expenses and other expenses resulting from borrowings agreements are recognised in the same period as part of the net financing income/(expense). The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(u) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date.
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising at the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

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

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes

to the consolidated financial statements

INDUSTRIAL HOLDING BULGARIA

Note		Page

1. Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise goodwill, minority interest, loans and tax liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:
Machinery construction. The manufacture and sale of heavy machinery, as well as research and development activities in this area.
Shipbuilding and transportation services. The manufacture and reconstruction of ships as well as related services and the sale of transportation services and includes port activities.

The investment in the Construction segment remains as an investment in the associated company Chimremontsroy AD with 25.86 % shareholding.

Geographical segments

All of the segments are located and operate in the geographical area of Bulgaria.

1. Segment reporting, continued

Business segments

Business segments	Machinery construction		Shipbuilding & transport		Construction		Other operations		Eliminations		Consolidated	
In thousands of BGN	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Total revenue from external customers	44,042	37,307	23,199	4,779	-	-	25,089	6,845	-	-	92,130	49,931
Inter-segment revenue	-	-	8	-	-	-	379	422	(387)	(422)	-	-
Total revenue	44,042	37,307	23,207	4,779	-	-	25,468	7,267	(387)	(422)	92,130	49,931
Segment result*	2,915	1,981	3,442	756	-	-	20,939	3,453			27,296	5,768
Amortization of goodwill		-		-	-	-		-	-	-	-	600
Profit from operations	2,915	-	3,442	-	-	-	20,939	-	-	-	27,296	6,368
Net financing costs	(509)	-	1,670	-	-	-	5,856	-	-	-	7,017	(609)
Income/(loss) from associates	-	-	1,562	2,908	(146)	30	-	-	-	-	1,416	2,938
Income tax expense	(232)	-	(762)	-	-	-	(3,186)	-	-	-	(4,180)	(803)
Minority interest	(141)	-	(1,509)	-	-	-	(2)	-	-	-	(1,651)	(232)
Net profit for the year	2,033	-	4,403	-	(146)	30	23,607	-		-	29,898	7,662
Segment assets	43,853	49,755	61,128	3,388	-	-	37,559	15,879	-	-	142,540	69,022
Investment in associates	-	-	7,106	10,283	600	746	-	-	-	-	7,706	11,029
Unallocated assets	-	-	-	-	-	-	-	-	-	-	5,520	(2,060)
Total assets	43,853	49,755	68,234	13,671	600	746	37,559	15,879	-	-	155,766	77,991
Segment liabilities	11,921	10,029	26,352	984	-	-	2,009	1,995	-	-	40,282	13,008
Payables on loans	2,365	-	-	-	-	-	5,581	-	-	-	7,946	10,298
Income tax expense	530		617	-	-	-	3,029	-	-	-	4,176	1,075
Total liabilities and minority interest	14,816	10,029	26,969	984	-	-	10,619	1,995	-	-	52,404	24,381
Capital expenses	819	1,242	1,098	186	-	-	114	4,312	-	-	2,031	5,740
Cash flows from operating activities	2,807	1,875	(1,003)	597	-	-	(1,666)	2,441	-	-	138	4,913
Cash flows from investing activities	(583)	(1,933)	4,315	(130)	-	-	7,234	(8,541)	-	-	10,966	(10,604)
Cash flows from financing activities	(996)	(306)	(475)	(575)	-	-	(3,261)	9,303	-	-	(4,732)	8,422

* Not all information for 2004 was available and therefore certain amounts for 2004 have not been included in the table above.

2. Revenue

In BGN thousand	Note	2005	2004
Sale of production		44,988	35,566
Sale of services		23,297	11,929
Sale of goods and materials		1,812	622
		70,097	48,117

3. Other operating revenue

In BGN thousand		2005	2004
Amortization of negative goodwill, net	12	-	600
Gain on disposal of property, plant and equipment	3a	20,469	125
Other revenue		1,564	689
		22,033	1, 414

3a. Gain on disposal of property, plant and equipment

Income from sale of non-current assets	31,522	254
Carrying amount of assets sold	(9,047)	(129)
Other expenses on the progress of the projects, construction licenses and other expenses on sale	(2,006)	-
Profit from sale of non-current assets	20,469	125

4. Increase/(decrease) in work- in- progress

In BGN thousand	2005	2004
Mashstroy PLC	1,189	451
Leiarmach AD	(267)	244
ZMM Sliven PLC	(72)	464
Augusta Mebel AD	(85)	(71)
Dockyard Port Bourgas AD	(20)	175
ZMM Nova Zagora PLC	134	187
Elprom ZEM PLC	466	121
Bulyard Shipbuilding Industry AD	7,726	-
	9,071	1,571

5. Cost of assets sold

In BGN thousand	2005	2004
Bulyard Shipbuilding Industry AD	843	-
Mashstroy PLC	11	38
Leiarmach AD	3	73
ZMM Sliven PLC	80	65
Augusta Mebel AD	31	66
Dockyard Port Bourgas AD	7	9
ZMM Nova Zagora PLC	7	56
Elprom ZEM PLC	43	-
ZMM Bulgaria Holding AD	18	(14)
	1,043	293

6. Other operating expenses

In BGN thousand		2005	2004
Impairment	7	274	198
Provisions for legal obligations and warranties		1,378	-
Business trips expenses		323	255
Other expenses		1,009	831
		2,984	1,284

7. Impairment losses

In BGN thousand	2005	2004
Impairment of receivables	274	198
	274	198

An impairment loss is calculated from the estimated recoverable amount of trade receivables. The carrying amount of the receivables is reduced to their recoverable amount and the difference is recognized as an expense in the income statement.

8. Personnel expenses

In BGN thousand	2005	2004
Wages and salaries	15,120	8,546
Compulsory social security contributions	5,002	3,071
	20,122	11,617

The average staff number for the Group in 2005 was 2,647 employees (2004: 1,817 employees).

9. Net financial income/(cost)

In BGN thousand	2005	2004
Interest expense	(673)	(571)
Interest income	438	147
Dividend income	43	6
Net foreign exchange difference	(166)	(292)
Unrealised loss from revaluation of financial assets held for trade	(207)	-
Net profit resulting from trade with financial assets	6,567	280
Net loss from operations with investments	1,236	-
Other financial profit /(loss), net	(221)	(179)
	7,017	(609)

10. Income tax expense recognised in the income statement

In BGN thousand	Note	2005	2004
Current tax expense			
Current year		4,286	707
Under/(over) provided in prior years		-	-
		4,286	707
Deferred tax expense			
Origination and reversal of timing differences		(106)	19
Decrease in the tax rate		-	68
Benefit of tax losses recognised		-	9
	16	(106)	96
Total income tax expense in income statement		4,180	803

Current income tax expense has been calculated using a rate of 15% valid for 2005 (2004:19.5%), applied to the tax base.

11. Property, plant and equipment

In BGN thousand	Land and buildings	Plant and equipment	Other fixed assets	Assets Under construction	Total
Cost					
Balance at 1 January 2004	29,507	10,787	1,797	1,173	43,264
Additions	3,808	661	532	1,370	6,371
Disposals	(32)	(166)	(115)	(403)	(716)
Transfers	83	724	115	(922)	-
Balance at 31 December 2004	33,366	12,006	2,329	1,218	48,919
Depreciation and impairment losses					
Balance at 1 January 2004	1,059	3,009	944	-	5,012
Depreciation charge for the year	548	741	317	-	1,606
Depreciation for assets written-off	(3)	(53)	(65)	-	(121)
Balance at 31 December 2004	1,604	3,697	1,196	-	6,497
Carrying amount					
At 1 January 2004	28,448	7,778	853	1,173	38,252
At 31 December 2004	31,762	8,309	1,133	1,218	42,422
Balance at 1 January 2005	33,366	12,006	2,329	1,218	48,919
Acquisitions by business combinations	6,554	14,393	330	76	21,353
Additions	362	953	295	4,067	5,677
Disposals	(10,386)	(815)	(167)	(469)	(11,837)
Transfers	1,311	2,780	19	(4,110)	-
Balance at 31 December 2005	31,207	29,317	2,806	782	64,112
Depreciation and impairment losses					
Balance at 1 January 2005	1,604	3,697	1,196	-	6,497
Acquisitions by business combinations	139	1,700	19	-	1,858
Depreciation charge for the year	692	1,809	291	-	2,792
Depreciation for assets written-off	(41)	(264)	(64)	-	(369)
Balance at 31 December 2005	2,394	6,942	1,442	-	10,778
Carrying amount					
At 1 January 2005	31,762	8,309	1,133	1,218	42,422
At 31 December 2005	28,813	22,375	1,364	782	53,334

As at the end of 2002 the Group revalued its land, buildings, plant and equipment using the valuation of an independent registered valuer. Based on this valuation, the carrying amount of the tangible non-current assets was increased by BGN 10,875 thousand, which was recorded as an increase in the revaluation reserve before allocation to minority interest. Furthermore, based on the same valuation the values of some buildings, plant and equipment were written down by BGN 630 thousand, which was recorded as an impairment loss in 2002.

Part of machines, plant and equipment serve as collateral for bank loans of the Group (see note 23).

Pledges on land and buildings, and machinery, plant and equipment totalling BGN 46,504 thousand have been made to Banks based on valuations performed by licensed valuers (see note 32).

12. Intangible non-current assets

In BGN thousand	Patents and trade-marks	Software	Other intangible assets	Total
Carrying amount				
At 1 January 2005	152	35	15	202
At 31 December 2005	111	31	41	183

The depreciation charge for the intangible non-current assets for the year ending 31 December 2005 amount to BGN 63 thousand (2004: BGN 60 thousand). Due to the fact that the intangible non-current assets owned by the Group are immaterial, no detailed note has been prepared on their movement during 2005.

(i) Goodwill

In thousands of BGN	Goodwill	Negative goodwill	Total
Balance at 1 January 2005	855	(2,915)	(2,060)
Increases through business combinations	4,665	-	4,665
Recognised negative goodwill in the opening balance of retained earnings	-	2,915	2,915
Balance at 31 December 2005	5,520	-	5,520

In thousands of BGN	Goodwill	Negative goodwill	Total
Cost			
Balance at 1 January 2004	3,275	(10,781)	(7,506)
Acquisitions through business combinations	-	(549)	(549)
Disposal of subsidiary	-	-	-
Balance at 31 December 2004	3,275	(11,330)	(8,055)
Amortisation and impairment losses			
Balance at 1 January 2004	1,575	(6,970)	(5,395)
Amortisation charge for the year	845	(1,445)	(600)
Balance at 31 December 2004	2,420	(8,415)	(5,995)
Carrying amount			
At 1 January 2004	1,700	(3,811)	(2,111)
At 31 December 2004	855	(2,915)	(2,060)

Effective from 1 January 2005 the Group applies the requirements of IFRS 3 Business combinations in the reporting of acquisitions and in the reporting of investments in associates for preparations of consolidated financial statements purposes.
As a result of this the amortisation of positive goodwill has been discontinued and instead the goodwill is tested for impairment.
Positive goodwill has arisen during the period as a result of acquisition of control over Bulyard AD in the amount of BGN 4,591 thousand and BGN 74 thousand as a result of acquiring 34% from the share capital of Leiarmach AD.
As a result of the additional acquisitions of the share capital of the other subsidiaries negative goodwill has arisen in the amount of BGN 1,236 thousand which is directly recognised in the Income statement (see note 9).

12. Intangible non-current assets, continued

(ii) Negative goodwill

The negative goodwill which arose as a result of acquisitions in subsidiaries for both reporting periods can be analysed as follows:

In BGN thousand	2005	2004
Elprom ZEM PLC	-	364
ZMM Nova Zagora PLC	183	1,351
Mashstroy PLC	283	829
ZMM Sliven PLC	761	-
Dockyard Port Burgas AD	9	-
Maritime Holding AD	-	371
Total negative goodwill	1,236	2,915
Recognised in the opening balance of retained earnings	-	(2,915)
Recognised in the Income statement (note 9)	(1,236)	-
Balance at end of period	-	-

(iii) Acquisition of subsidiaries

During the year the Group acquired additional shares in the following subsidiaries and the relative net identified assets and liabilities:

In BGN thousand	Net assets	%
ZMM Nova Zagora PLC	218	4,04
ZMM Sliven PLC	877	12,24
Mashstroy PLC	373	5,04
Leiarmach AD	646	34,00
Dockyard Port Burgas AD	10	0,28
Bulyard AD, Bulyard Shipbuilding Industry AD	9,715	38,62
	11,840	

Effect of the acquisitions

The acquisitions have the following effects on the Group assets and liabilities:

In BGN thousand	
Machinery, plant and equipment	9,166
Intangible assets	24
Inventories	2,472
Trade and other receivables	1,220
Cash and cash equivalents	1,538
Loans	(362)
Trade and other payables	(2,218)
Net identifiable assets and liabilities	11,840
Positive goodwill from acquisition	4,665
Negative goodwill from acquisition	(1,236)
Cash and equivalents paid for the acquisitions	15,269
Cash received for acquisitions	(1,538)
Net cash paid and cash equivalents	13,731
Cash paid for acquisition of share in associated company	(6,006)
Net cash paid	7,725

13. Investments in associates

The Group possesses the following investments in associates:

	Country	Ownership 2005	Ownership 2004
Dunav Tours AD	Bulgaria	48,39%	45,43%
Chimremontstroy AD	Bulgaria	25,86%	25,86%
Bulyard AD	Bulgaria	-	25,00%
Istrum Travel	Cyprus	50,00%	50,00%
Odesos PBM AD	Bulgaria	30,00%	-

The Group's share in the post-acquisition reserves of Dunav Tours AD for the year ended 31 December 2004 amounted to BGN 176 thousand.
During the second quarter of 2005, Industrial Holding Bulgaria PLC purchased 14,373 shares from the share capital of Dunav Tours AD amounting to BGN 14 thousand. Thus the share participation in the equity of the company reached 48.39%.
In accordance with the requirements of IFRS 3 Business combinations, negative goodwill is now immediately recognised in the income statement. Capitalised negative goodwill of BGN 2,915 thousand which had previously been recorded in the balance sheet at 31 December 2004 has been adjusted in the opening balance of retained earnings.
In November 2003 the company Bulyard AD was created for the purpose of participating as a strategic partner to Navigation Maritime Bulgare in the management of the activities and assets of Varna Shipyard. The share of the Group in this company is 25% with 12,500 shares subscribed. Industrial Holding Bulgaria PLC participated in the increase of the capital of Bulyard AD from BGN 50 thousand to BGN 24,019 thousand, subscribing for 5,992,245 shares of that increase. In 2005 the Holding acquired 51.50% of the shares and became its majority owner as a result of which the Company has acquired control over Bulyard Shipbuilding Industry AD, Varna which is 75% owned by Bulyard AD. In 2004 the investments in Bulyard AD have been reported as investments in associates and in 2005 as a result of the established control, they have been reported as investments in subsidiaries.

In March 2005 the Group made a decision to acquire some of the share capital of Odesos PBM AD, Varna which has activities consisting of providing port services and the relative activities from /to vessels and land transport vehicles. The share capital of Odesos PBM AD is 5,280,000 number of shares. The participation of Industrial Holding Bulgaria PLC amounts to 30%.

The movements in the investment in associates could be analysed as follows:

In BGN thousand	2005	2004
Bulyard AD		
At 1 January	6,106	13
Share of increase in net assets	-	101
Adjustments as a result of acquiring control	(101)	-
Transfer to investments in subsidiaries as a result of acquiring control	(6,005)	-
Incorporation and increase of the capital	-	5,992
At 31 December	-	6,106

13. Investments in associates, continued

In BGN thousand	2005	2004
Dunav Tours AD		
At 1 January	3,178	2,906
Adjustments according to IFRS 3	1,262	-
Share of increase in net assets	468	176
Reported goodwill from acquisition of 2.96 %	234	-
Amortisation of goodwill	-	67
Additionally purchased shares	15	29
At 31 December	5,157	3,178
Chimremontstroy AD		
At 1 January	746	716
Impairment	(146)	-
Share of profit	-	30
At 31 December	600	746
Istrum Travel		
At 1 January	999	19
Share of increase in net assets	875	2,564
Dividends paid for period	(1,495)	(1,584)
At 31 December	379	999
Odesos PBM AD		
Investment	1,585	-
Share of increase of net assets	(15)	-
At 31 December	1,570	-
Total investments in associates at 31 December	7,706	11,029

14. Other investments

In BGN thousand	% ownership	2005	% ownership	2004
Elpo PLC	17.99%	121	17.99%	121
Dockyard Odessos PLC	-	-	18.35%	1,100
Transbalkan Oil Pipeline Bulgaria AD	14,29%	107	14,29%	429
Meteko AD	-	7	0.67%	-
Other	-	7	-	12
		242		1,662

In compliance with IAS 39 the Group reports investments in subsidiaries held for sale at fair value when such is reliably definable. For the companies traded on the stock exchange an active trade is necessary. When is impossible to make a reliable estimate of the fair value, the cost of the acquired investments has been used or the cost of the last estimate. In 2005 all of the 100,000 number of shares from the capital of Dockyard Odessos PLC were owned by the Group. The sale of the shares amounts to BGN 7,928 thousand which was reported as expenses for sale in the amount of BGN 48 thousand. The income is reported on the line Income from operations with investments (see note 9).

Transbalkan Oil pipeline AD is in the process of liquidation because the Company is unable to fulfil the objective for which it was established. The liability of BGN 321 thousand for additional payment of capital was cancelled, as a result of which the amount of the investment is decreased by the same amount.

15. Financial assets held for trade

In thousands of BGN	2005	2004
Shares at purchase cost	1,516	-
Impairment	(206)	-
Cost at 31 December	1,310	-

During the year 64,100 of ordinary shares have been purchased from Bulgartabac Holding PLC amounting to BGN 2,077 thousand, purchased for BGN 32.40 for one share. During the year 17,312 shares have been sold. As at the balance sheet date the group owns 46,788 shares amounting to BGN 1,310 thousand. The shares have been estimated at the value at which they have been quoted on the Bulgarian Stock Exchange as at 31 December 2005 (BGN 28.00 for one share). As a result of this an impairment has been reported against the purchase price.

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
In BGN thousand	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-	-	1,954	1,870	1,954	1,870
Trade and other receivables	(87)	(52)	-	-	(87)	(52)
Provisions	(66)	(75)	-	-	(66)	(75)
Impairment of current financial assets	(31)	-	-	-	(31)	-
Provision for retirement compensations	(31)	(29)	-	-	(31)	(29)
Other payables	(159)	(27)	-	10	(159)	(17)
Tax value of loss carry-forwards recognised	(232)	(156)	-	-	(232)	(156)
Net tax (assets)/liabilities	(606)	(339)	1,954	1,880	1,348	1,541

The applicable tax rates used for calculation of the deferred tax liabilities are 15 % for 2005 and 2004.

Movements in timing differences during the year In BGN thousand	Balance 1 January 2005	Effect from acquisition	Recognised in income	Recognised in equity	Balance 31 December 2005
Property, plant and equipment	1,870	5	83	(4)	1,954
Trade and other receivables	(52)	-	(35)	-	(87)
Impairment of current financial assets	-	-	(31)	-	(31)
Provisions	(75)	-	9	-	(66)
Provisions for retirement compensations	(29)	-	(2)	-	(31)
Other payables	(17)	(88)	(54)	-	(159)
Recognised tax asset from loss carried-forward from previous periods	(156)	-	(76)	-	(232)
	1,541	(83)	(106)	(4)	1,348

In BGN thousand	Balance 1 January 2005	Recognised in income	Recognised in equity	Balance 31 December 2005
	restated			
Property, plant and equipment	2,387	11	(528)	1,870
Trade and other receivables	(40)	(12)	-	(52)
Provisions	(157)	82	-	(75)
Provisions for retirement compensations	(41)	12	-	(29)
Other payables	(13)	(4)	-	(17)
Recognised tax asset from loss carried-forward from previous periods	(163)	7	-	(156)
	1,973	96	(528)	1,541

17. Inventories

In BGN thousand	Note	2005	2004
Raw materials and consumables		12,711	4,278
Work in progress	17 a	12,868	4,959
Finished goods		2,459	1,955
Supplies		2,017	-
Merchandise		149	33
		30,204	11,225

17 a. Work in progress

Work in progress includes:

In BGN thousand	2005	2004
Work in progress from shipbuilding	7,170	-
Work in progress from shiprepair	483	9
Work in progress from machine-building	5,215	4,950
	12,868	4,959

18. Trade and other receivables

In BGN thousand	2005	2004
Trade receivables	27,221	2,983
Court receivables	298	43
Tax receivables	1,454	576
Other receivables	218	486
Prepayments and deferred expenses	5,269	38
	34,460	4,126

19. Long term receivables

In BGN thousand	2005	2004
Mak AD – Gabrovo	210	280
Chimremontstroy Engineering AD	313	626
Other long term receivables	420	376
	943	1,282

20. Cash and cash equivalents

In BGN thousand	2005	2004
Cash at bank	14,338	8,010
Cash in hand	137	93
Cash as per cash flow	14,475	8,103
Blocked cash	7,389	-
Cash and cash equivalents presented in the Balance sheet	21,864	8,103

Blocked cash amounting to BGN 4,944 thousand represents amounts for collateral of letter of credits, opened in favour of suppliers in relation to activities for shipbuilding and shiprepair. To secure the issued bank guarantees in favour of third parties the amount of BGN 2,399 thousand has been blocked. The amount of BGN 46 thousand has been blocked in relation to advances received which can not be utilized until the finalisation of the work.

21. Share capital and reserves

Share capital is stated at nominal value as per court registration. At 31 December 2005 the authorised share capital comprised 21,003,235 ordinary shares (2004: 21,003,235) with a par value of BGN 1.

The holders of ordinary shares are entitled to receive dividends as declared after each year end and are entitled to one vote per share at meetings of the Group. All shares rank equally with regard to the Group's residual assets.

Shareholder	**Number of shares 31 December 2005**	**2005 %**	**2004 %**
Venside Enterprises Ltd	7,626,799	36.31%	36.31%
Other legal entities	4,297,078	20.46%	9.79%
Individuals	9,079,358	43.23%	53.90%
	21,003,235	100.00%	100.00%

Additional and statutory reserves

The additional and statutory reserves include such formed by allocation of 10% of profit as under the requirements of the Trade Act, and resulting from the revaluation performed as at 31 December 1997. These reserves comprise additional and statutory reserves of the parent company as well as the share of reserves of the subsidiaries formed after the date of acquisition.

Revaluation reserve

The revaluation reserve was formed as a result of the revaluation of property, plant and equipment less the deferred tax liabilities arising in respect of the revaluation.

22. Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2005 was based on the net profit attributable to ordinary shareholders of BGN 29,898 thousand (2004: BGN 7,662 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 21,003,235 (2004: 21,003,235), calculated as follows:

Net profit attributable to ordinary shareholders

In BGN thousand	**2005**	**2004**
Net profit for the year	29,898	7,662
Net profit attributable to ordinary shareholders	29,898	7,662

Weighted average number of ordinary shares

In thousands of shares	**2005**	**2004**
Issued ordinary shares at 1 January	21,003	21,003
Number of ordinary shares at 31 December	21,003	21,003
Weighted average number of shares at 31 December	21,003	21,003

23. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk, refer to note 26.

In BGN thousand	Note	2005	2004
Non-current liabilities			
Secured bank loans		503	2,087
		503	2,087
Current liabilities			
Current portion of secured bank loans		2,052	2,990
		2,052	2,990
Debenture loan			
Long-term part		5,233	5,221
Short-term part	25	158	158
		5,391	5,379

Details of the bond issued by Industrial Holding Bulgaria PLC are as follows:

- Type: convertible personal debentures
- Total number of bonds: 5 250 805;
- Total nominal value: BGN 5 250 805;
- Nominal value of 1 bond: BGN 1;
- Issue value of 1 bond: BGN 1;
- Term: 3 years;
- Interest: 6% annually, paid every 6 months.
- Issue date of the debenture loan: 2 July 2004
- Maturity dates of the due interest payments: 25 January 2005, 25 July 2005, 25 January 2006, 25 July 2006, 25 January 2007, 2 July 2007.
- Maturity date for the principal: 2 July 2007.
- Bank servicing the payments: CB Allianz Bulgaria

Terms and debt repayment schedule

In BGN thousand	Total	1 year or less	Over 1 years
Secured bank loans:			
EUR 205 thousand – monthly - LIBOR+5.5%	300	100	200
EUR 100 thousand – monthly - LIBOR +5.5%	196	196	-
BGN 75 thousand – variable around 9.28%	75	75	-
EUR 200 thousand – variable around 7%	189	189	-
EUR 400 thousand – variable around 8%	588	440	148
BGN 55 thousand – variable around 9.37%	55	55	-
BGN 228 thousand – variable around 8.71%	228	228	-
BGN 734 thousand – variable around 5.37%	734	587	147
BGN 175 thousand – interest rate -10.50%	175	175	-
BGN 15 thousand – interest free	15	7	8
	2,555	2,052	503

Bank loans are secured with land and buildings with book value of BGN 1,447 thousand (2004: BGN 1,196 thousand), machines and equipment with book value of BGN 2,641 (2004: BGN 5,067 thousand). Dockyard Port Bourgas AD is also pledged as a company.

Pledge of finished production amounting to BGN 171 thousand as well as promissory notes amounting to BGN 100 thousand and EUR 500 thousand have been established in favour of the Banks creditors.

24. Provisions

In BGN thousand	Retirement compensations	Warranties	Law suites	Total
Balance at 1 January 2005	353	173	1,025	1,551
Provisions as a result of acquisition	180	85	-	265
Provisions accrued during the year	133	94	1,151	1,378
Reintegrated provisions	(90)	(116)	(66)	(272)
Balance at 31 December 2005	576	236	2,110	2,922

Retirement compensations

The Group has made an estimate of the due retirement compensations in accordance with the Labor Code and the Collective Labor Contracts, where there are such, on a company by company basis. The estimate was made on the basis of a 5 year period and a discount rate of 7%. The provision for retirement compensations is presented as a long term liability in the Group's balance sheet.

Warranties

The provision for warranties relates mainly to engines sold by Elprom ZEM PLC and ship repairs performed by Dockyard Port Bourgas AD. The calculations of the provision are based on estimations based on historical warranty data associated with similar products and services.

Lawsuits provisions

The estimated provision, amounting to BGN 1,025 thousand is based on detailed information for lawsuits against Elprom ZEM PLC in the amount of BGN 169 thousand and BGN 856 thousand for provision for liabilities for loan repayments (principal and interest), in accordance with the Law for settlement of non-performing loans (ZUNK) of its subsidiary Mashstroy PLC. In 2005 an additional provision for the ZUNK liability was accrued amounting to BGN 1,151 thousand. Mashstroy PLC initiated lawsuits against the Ministry of Finance, the outcome of which cannot be reliably estimated as at the date of preparation of these financial statements. The amount of the provision accrued is based on most detailed information for the case, received from the lawyers dealing with it, and on the amounts that are likely to be payable if the result of the case is unfavorable.

25. Other payables

In BGN thousand	Note	2005	2004
Dividends payable		-	1,346
Trade payables		10,435	5,508
Payables to employees		1,897	645
Social security due		616	291
Payable to the budget		4,176	1,075
Advance payments received		22,429	331
Short-term part of debenture loan	23	158	158
Other		611	1,500
		40,322	10,854

26. Financial instruments

The exposure to credit, interest rate and foreign currency risk arises in the normal course of the Group's business. The Group does not use derivatives to reduce exposure to fluctuations in interest rates.

Interest rate risk

During the reporting period the Group has been exposed to interest rate risk. The Group finances its activity via secured bank loans and is exposed to a significant extent to an interest rate risk and this situation will prevail in the future.

Effective interest rate

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date.

In BGN thousand	Note	Effective interest rate	Total	Up to 1 year	1-2 years	2-5 years
Cash and cash equivalents	20	0.2%-3%	21,864	21,864	-	-
Debenture loan	23	6.26%	(5,391)	(158)	-	(5,233)
Secured bank loans	23	5.5% - 12%	(2,555)	(2,052)	(503)	-
Total			13,918	19,654	(503)	(5,233)

Credit risk

The Group is exposed to credit risk as it has significant exposure of its trade receivables.
The management of the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Bulgarian leva. The currency giving rise to such risk is primarily the US Dollar.

In order to manage the foreign currency risk the Group performs transactions with goods, production, services and investments in a comparable proportion in the different currencies.

27. Trade and other long-term payables

In BGN thousand	2005	2004
Long-term payables to National Reserve	-	137
Other long-term payables	24	-
	24	137

Long-term payables represent payables for received financing on the grounds of a signed contract with Fund "Labour conditions". The financing is intended to be used for reconstruction and modernizing of part of the equipment of a subsidiary.

28. Related parties

The Group has controlling related party relationship with its shareholders.

The Group also has a related party relationship with its associates (refer to note 14) and with its directors and executive officers.

Transactions with directors and executive officers

In thousands of BGN	2005	2004
Salaries and social security of the Executive Director, Board of Directors and Supervisory Board	801	274
Management guarantees withheld	-	-
Loan receivables, including interests – member of the Board of Directors	-	10

Other related party transactions

Associates

The transactions with associates as at 31 December 2005 are as follows:

In thousands of BGN	2005	2004
Income from sale of services from Dunav Tours AD	72	80
Income from sale of services from Dunav Tours Hotels AD	24	-

At 31 December 2005 the Group does note have receivables/payables to/ from related parties.

29. Group enterprises

Significant subsidiaries	Country of incorporation	Ownership interest 2005 %	Ownership interest 2004 %
Privatengineering AD	Bulgaria	100.00	100.00
Augusta Mebel AD	Bulgaria	97.86	97.86
Hydro Power Bulgaria AD	Bulgaria	67.00	67.00
ZMM Bulgaria Holding AD	Bulgaria	100.00	100.00
ZMM Sliven PLC	Bulgaria	92.89	80.65
ZMM Nova Zagora PLC	Bulgaria	91.10	87.06
Leiarmach AD	Bulgaria	100.00	66.00
Mashstroy PLC	Bulgaria	80.81	75.78
Elprom ZEM PLC	Bulgaria	82.19	82.19
Dockyard Port Bourgas AD	Bulgaria	91.72	91.44
Build 2000 EOOD	Bulgaria	-	100.00
KLVK AD	Bulgaria	100.00	100.00
International Industrial Holding AG	Switzerland	100.00	100.00
Maritime Holding AD	Bulgaria	61.00	90.00
Bulgarian Register of Shipping AD	Bulgaria	61.00	90.00
Bulyard AD	Bulgaria	51.50	25.00
Bulyard Shipbuilding Industry AD	Bulgaria	38.63	18.75

30. Subsequent events

On the grounds of a contract from May 2006 between Industrial Holding Bulgaria PLC and Chimremonstroy Engineering AD, Industrial Holding Bulgaria PLC sold the remaining 430,489 number of shares representing 25.86% from the share capital of Chmremonstroy AD. The deal amounted to BGN 600 thousand. On the grounds of a Contract between Dockyard Odessos PLC and Industrial Holding Bulgaria PLC dated 28 March 2006, Industrial Holding Bulgaria PLC purchased 2,401,898 number of ordinary registered shares with voting rights representing 10% of the share capital of Bulyard AD. Dockyard Odessos PLC discontinued its participation in the capital of Bulyard AD and the participation of Industrial Holding Bulgaria PLC amounted to 61.50%.

On the grounds of a contract dated 15 February 2006 Industrial Holding Bulgaria PLC has sold its available 39,349 number of shares representing 17.99% from the capital of Elpo PLC.

During the first quarter of 2006 the subsidiary ZMM Bulgaria Holding AD established a joint stock company BULKARI AD with share capital amounting to BGN 2,000. The Company has been established in order to participate in the privatization of Balkankar Sredetz AD.

The subsidiary Privat Engineering AD established two subsidiaries - Emona Shipping Ltd. and Marciana Shipping Ltd. registered in Malta, which signed an agreement for construction of two multipurposed 9000 tone vessels in Bulyard Shipbuilding Industry AD. The vessels have unlimited roadstead of sailing with option to transport bulk cargos as well as containers. The cost of each vessel amounts to approximately EUR 13 million.

On the annual meeting of the shareholders of the Group which was held on 15 June 2006 the Management was empowered to conclude deals from art. 236, l. 2, par. 3 of the Commercial Act. The deals relate to ensuring corporate guarantees which Industrial Holding Bulgaria PLC will issue in favour of the clients of Bulyard Shipbuilding Industry AD for shipbuilding contracts. The guarantees will not exceed EUR 10,630,000 and USD 8,869,770.

31. Commitments

As at 31 December 2005 the Company has guaranteed liabilities of subsidiaries by accepting promissory notes to a total amount of BGN 298 thousand (2004: BGN 314 thousand), of which BGN 100 thousand (2004: BGN 100 thousand) relate to a bank loan and BGN 198 thousand (2004: BGN: 214 thousand) to guarantees for satisfactory performance.

A subsidiary has issued a promissory note in favour of the Banks for the amount of BGN 1,588 thousand to guarantee its liabilities for bank loans.

A subsidiary of the Group provided guarantees to third parties in relation to obligations for signed contracts amounting to BGN 536 thousand.

The management of the Group does not consider that there are indications the promissory notes will be requested, due to which no provisions for commitments have been accrued.

32. Bank guarantees

On 26 July 2005, a company from the group signed a contract with two Bulgarian banks for syndicated revolving loan collateralizing the issue of bank guarantees. The limit of the loan amounts to EUR 12,500 thousand and USD 10,900 thousand. The final term for repayment is 25 July 2009.

The loan is secured by first mortgage on land and buildings and first special pledge on machinery and equipment totaling BGN 46,504 thousand which as disclosed in note 11 has been accepted by the banks on the grounds of the valuation of a licensed valuer.

As at 31 December 2005, within the loan, the Company has opened 5 guarantees totaling EUR 4,458 thousand and USD 5,547 thousand (approximate amount in levs- BGN 18,205 thousand).

The bank guarantees have been secured with promissory notes guaranteed by Bulyard AD.

A subsidiary of the Group signed a contract with a Bulgarian bank to issue bank guarantees amounting to EUR 671 thousand to secure the liabilities of a subsidiary of the Group to third party. The issued bank guarantees are secured by second rank special pledge of a commercial company which is a subsidiary of the Group.

33. Differences in application of IFRS 3 Business combinations

The goodwill as at 31 December 2005 amounts to BGN 5,520 thousand and comprises the non-amortisible part of the goodwill resulting from the acquisition of ZMM Bulgaria Holdin AD in the amount of BGN 855 thousand and the goodwill arising in 2005 as a result of the acquisition of 51.50 % of the share capital of Bulyard AD owning 75 % of Bulyard Shipbuilding Industry AD, as well as the acquisition of 34 % of Leyarmash AD totaling BGN 4,665 thousand. The goodwill is not amortised according to IFRS 3 and at the end of the year is tested for impairment.

The non-amortisible part of the negative goodwill as at 31 December 2004 in the amount of BGN 2,915 thousand was written off through the opening balance of the retained earnings. The negative goodwill arising in 2005 as a result of the increase of the share participation in the Group of Mashstroy PLC, ZMM Nova Zagora PLC, ZMM Sliven PLC and Dockyard Port Bugras AD totaling BGN 1,236 thousand was recognised directly in the 2005 income statement.

If the Group prepared its financial statements according to IAS approved for application in Bulgaria with Government decree No 21/14.02.2006, the effect would have been different as illustrated below.

The unamortised negative goodwill relating to an investment in an associate company as at 31 December 2004 of BGN 1,262 thousand has been written off through the opening balance of retained earnings at 1 January 2005.

Regarding the goodwill recognised in the Balance sheet

International Accounting Standards (2002)

In thousands of BGN	31 December 2005	31 December 2004
Positive goodwill	4,159	855
Negative goodwill	(2,088)	(2,915)
Balance of positive (negative) goodwill	2,071	(2,060)

International Financial Reporting Standards (2005)

In thousands of BGN	31 December 2005	31 December 2004
Positive goodwill	5,520	855
Negative goodwill	-	(2,915)
Balance of positive (negative) goodwill	5,520	(2,060)

Regarding the goodwill recognised in the Income statement

International Accounting Standards (2002)

In thousands of BGN	2005	2004
Amortisation of positive goodwill	1,361	845
Amortisation of negative goodwill	(2,063)	(1,445)
Net expense (income)	(702)	(600)

International Financial Reporting Standards (2005)

In thousands of BGN	2005	2004
Amortisation of positive goodwill	-	845
Amortisation of negative goodwill	-	(1,445)
Recognised negative goodwill from acquisitions	(1,236)	-
Net expense (income)	(1,236)	(600)

34. Standards, interpretations and changes of published standards which are still not in force

As at 31 December 2005 standards and interpretations have been published which are still not in force and which are not applied in the preparation of the present financial statements. The Company has not yet finalised its analysis for the possible effect of the changes, but the management believes that there will not be any material effect for 2006. The following standards are likely to have an influence:

IFRS 7 Financial Instruments: Disclosure (in force from 1 January 2007) - The standard requires more disclosures with regard to the financial instruments of the Group. It supercedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable for all companies which prepare their financial statements in accordance with IFRS.

Changes in IAS 1 Presentation of Financial Statements- Disclosure of the share capital (in force from 1 January 2007) - an additional change resulting from IFRS 7 (see above), the standard requires more disclosures with regard to the share capital of the Group.

Changes in IAS 39 Financial Instruments: Recognition and Measurement - Hedging of cash flows of the expected inter-company transactions (in force from 1 January 2006). The change allows the currency risk from highly possible inter-company transactions to be determined as a hedging amount if it meets certain criteria.

Changes in IAS 39- Financial Instruments: Recognition and Measurement- regarding the fair value (in force from 1 January 2006). Change in the presentation of the financial instruments "at fair value by profit or loss".

Changes in IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts- Contracts for financial guarantees (in force from 1 January 2006). The change requires guarantees which are not insurance contracts and should be valued at fair value when initially recognised.

IFRIC 4 determines whether certain contracts comprise leasing (in force from 1 January 2006). The clarification requires certain contracts to be recognised as leasing, even if such contracts are not legally leases.

IFRIC 9- Revaluation of Embodied Derivatives (in force from 1 June 2006). The clarifications specifies the presentation of embodied derivatives that are valued for each company when the company is a party to the contract and the revaluation is not allowed if there is no change in the terms of the contract which changes significantly the cash flows which would have been available as per the contract.