

**Consolidated
Financial
Statements**

for the year ended
31 December 2004
With Independent
Auditor's Report Thereon



**INDUSTRIAL
HOLDING
BULGARIA**



Independent Auditors' Report

To the shareholders of
Industrial Holding Bulgaria PLC

Sofia, 27 June 2005

We have audited the accompanying consolidated balance sheet of Industrial Holding Bulgaria PLC ("the Company") as of 31 December 2004, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 2004, and of the results of its operations, its cash flows and the changes in equity for the year then ended in accordance with International Financial Reporting Standards.

Gilbert McCaul
Partner

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria



Consolidated income statement

For the year ended 31 December 2004

In thousands of BGN	Note	2004	2003		Total	
			Continuing operations Restated	Discontinuing operations	2004	2003 Restated
Revenue	2	47,988	39,200	5,251	47,988	44,451
Other operating revenue	3	1,543	2,240	10	1,543	2,250
Increase/(Decrease) in WIP	4	1,571	151	(800)	1,571	(649)
Cost of materials		(22,844)	(18,838)	(826)	(22,844)	(19,664)
Hired services		(7,030)	(5,912)	(2,143)	(7,030)	(8,055)
Depreciation and amortization		(1,666)	(1,602)	(229)	(1,666)	(1,831)
Personnel expenses	8	(11,617)	(10,777)	(837)	(11,617)	(11,614)
Cost of assets sold	5	(293)	(383)	(187)	(293)	(570)
Other operating expenses	6	(1,284)	(452)	(247)	(1,284)	(699)
Profit/(loss) from operations		6,368	3,627	(8)	6,368	3,619
Net financing income/(expenses)	9	(609)	750	40	(609)	790
Income from associates	13	2,938	38	-	2,938	38
Profit/(loss) before tax		8,697	4,415	32	8,697	4,447
Income tax income/(expense)	10	(803)	(527)	(8)	(803)	(535)
Profit/(loss) after tax		7,894	3,888	24	7,894	3,912
Minority interest		(232)	(407)	(4)	(232)	(411)
Net profit/(loss) for the year		7,662	3,481	20	7,662	3,501
Basic earnings per share (BGN)	22	0.36	0.17	-	0.36	0.17

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 36 to 60.

Daneta Zheleva
Executive Director



Toshka Vassileva
Chief Accountant

Gilbert McCaul
Partner

Krassimir Hadjidinev
Registered Auditor

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia 1142



Consolidated balance sheet

For the year ended 31 December 2004

In thousands of BGN	Note	2004	2003
			Restated
Assets			
Property, plant and equipment	11	42,422	38,252
Intangible assets	12	202	162
Goodwill	12	(2,060)	(2,111)
Investments in associates	13	11,029	3,635
Other investments	14	1,662	1,851
Long-term receivables	19	1,282	1,736
Total non-current assets		54,537	43,525
Inventories	17	11,225	10,171
Trade and other receivables	18	4,126	4,683
Other financial assets	15	-	117
Cash and cash equivalents	20	8,103	5,372
Total current assets		23,454	20,343
Total assets		77,991	63,868
Equity			
Issued capital	21	21,003	21,003
Reserves		11,897	11,410
Retained earnings (net)		14,417	6,866
Total equity		47,317	39,279
Minority interest			
		6,293	7,171
Liabilities			
Interest-bearing loans and borrowings	23	2,087	324
Debenture loan	23	5,221	-
Trade and other long-term payables	27	137	247
Provisions	24	1,378	1,661
Deferred tax liabilities	16	1,541	1,973
Total non-current liabilities		10,364	4,205
Interest-bearing loans and borrowings	23	2,990	1,552
Other payables	25	10,854	11,476
Provisions	24	173	185
Total current liabilities		14,017	13,213
Total equity and liabilities		77,991	63,868

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 36 to 60.

Daneta Zheleva
Executive Director



Toshka Vassileva
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Consolidated statement of cash flows

For the year ended 31 December 2004

In thousands of BGN	Note	2004	2003
			Restated
Operating activities			
Net profit for the year		7,662	3,501
Adjustments for:			
Depreciation and amortization	11,12	1,666	1,831
Provision for unused paid leaves		100	123
Foreign exchange losses, net	9	292	314
Interest expense	9	571	414
Interest income	9	(147)	(254)
Dividend income	9	-	(504)
(Income)/loss from associates		(2,938)	(38)
(Gain)/loss on disposal of subsidiary		-	482
(Gain)/loss on sale of property, plant and equipment		417	28
(Loss)/gain derived from trading investments		-	-
Income tax expense		803	535
Minority interest		232	411
Amortization of goodwill, net	12	(600)	(1,056)
Operating profit before changes in working capital and provisions		8,058	5,787
(Increase)/decrease in trade and other receivables		1,128	1,802
(Increase)/decrease in inventories		(1,054)	1,125
Increase/(decrease) in trade and other payables		(1,934)	(5,633)
Increase/(decrease) in provisions	24	(295)	515
Cash generated from the operations		5,903	3,596
Interest paid		(382)	(399)
Income taxes paid		(608)	(168)
Cash flows from operating activities		4,913	3,029
Investing activities			
Proceeds from sale of plant and equipment		178	208
Proceeds from sale of investments		-	-
Interest received		147	234
Disposal of subsidiary, net of cash disposed		-	49
Acquisition of associate		(6,773)	-
Acquisition of property, plant and equipment		(5,740)	(6,111)
Acquisition of other investments		-	(424)
Dividends received		1,584	108
Cash flows from investing activities		(10,604)	(5,936)

Consolidated statement of cash flows, continued

For the year ended 31 December 2004

In thousands of BGN	Note	2004	2003
Financing activities			
Proceeds from the issue of share capital		-	-
Loans received		9,611	1,422
Loans repaid		(1,189)	(3,113)
Dividends paid		-	-
Cash flows from financing activities		8,422	(1,691)
Net increase in cash and cash equivalents		2,731	(4,598)
Cash and cash equivalents at 1 January	20	5,372	9,970
Cash and cash equivalents at 31 December	20	8,103	5,372

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 36 to 60.

Daneta Zheleva
Executive Director



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Consolidated statement of changes in equity

For the year ended 31 December 2004

In thousands of BGN

	Note	Share capital	Additional and legal reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2003		21,003	4,756	7,137	2,938	35,834
Profit for the current year, restated		-	-	-	3,501	3,501
Allocation of legal reserves		-	62	-	(62)	-
Revaluation surplus of assets written off		-	-	(71)	71	-
Change of tax rate		-	-	398	-	398
Transfer of reserves related to discontinuing operations		-	-	(872)	872	-
Changes in accounting policy and correction of errors		-	-	-	(427)	(427)
Other movements		-	34	(34)	(27)	(27)
Balance at 31 December 2003, restated		21,003	4,852	6,558	6,866	39,279
Balance at 1 January 2004		21,003	4,852	6,558	6,866	39,279
Profit for the current year		-	-	-	7,662	7,662
Allocation of legal 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

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 36 to 60.

Daneta Zheleva
Executive Director



Toshka Vassileva
Chief Accountant

Gilbert McCaul
Partner

Krassimir Hadjidinev
Registered Auditor

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37, Fridtjof Nansen Str.
Sofia 1142



Significant accounting policies

Industrial Holding Bulgaria PLC (the Company) is a public limited company domiciled in Sofia 1000, 47, Vassil Levski Blvd. The consolidated financial statements of the Company for the year ended 31 December 2004 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 and transportation, construction, 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. It also launched a project for construction of a holiday village in the Boudjaka area, Sozopol.

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 2005.

(a) Statement of compliance

The consolidated financial statements for 2004 have been prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

(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 with the exception of land, buildings, plant, machinery and equipment, which are presented at a revaluated amount, reduced with the accumulated depreciation and impairment losses, as well as financial assets held for trading and financial assets available for sale, presented at fair value.

The accounting policies have been consistently applied by Group enterprises and are consistent with those used in the previous year.

(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.

In 2004 a change in the Group accounting policy has been made in respect of the accounting for provisions for retirement compensations. Comparative data for 2003 has been restated and the related effects on the deferred tax have been booked.

The amount of the provision for liabilities under the Law for settlement of non-performing loans of one of the subsidiaries in the Group has also been restated. The effects are accounted for retrospectively.

(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.

(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 have been valued by an independent valuer as at 31 December 2002. The Group adopted a policy to carry those assets at revalued amount under the alternative 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 is expensed in the income statement.

The 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 I).

(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 amortisation and impairment losses (refer to accounting policy I). 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.

(g) Intangible assets, continued

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the expected losses and expenses are realised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement. Negative goodwill is presented as a deduction from the assets of the Group, in the same balance sheet classification as goodwill.

In respect of associates, the carrying amount of negative goodwill is included in the carrying amount of the investment in the associate.

(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 I). 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.

Significant accounting policies, continued

(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 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

In 2004 the Group accrues for the first time in its financial statements provisions for retirement compensations in accordance with the require-

ments of IAS 19 "Employee benefits". Information has been calculated for prior periods and necessary restatements of comparative information have been made.

(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 contract. 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 or substantially 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.

(w) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

Notes

to the consolidated
financial statements



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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, amortization of 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.

The other business segment, Construction, was sold in April 2003 and is presented as discontinuing operation in the comparatives for 2003. The investment in Construction sector remains as investment in the associated company Chimremontstroy AD with 25.86% share holding.

Geographical segments

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

1. Segment reporting, continued

Business segments

In BGN thousand	Machinery construction		Shipbuilding & transport		Construction		Other operations		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Total revenue from external customers	37,307	32,018	4,779	5,056	-	5,261	6,845	3,310	-	-	48,931	45,645
Inter-segment revenue	-	-	-	-	-	-	422	372	(422)	(372)	-	-
Total revenue	37,307	32,018	4,779	5,056	-	5,261	7,267	3,682	(422)	(372)	48,931	45,645
Segment result	1,981	1,627	756	659	-	(8)	3,453	657	(422)	(372)	5,768	2,563
Amortization of goodwill	-	-	-	-	-	-	-	-	-	-	600	1,056
Profit from operations	-	-	-	-	-	-	-	-	-	-	6,368	3,619
Net financing costs	-	-	-	-	-	-	-	-	-	-	(609)	790
Income/(expense) from associates	-	-	2,908	131	30	(93)	-	-	-	-	2,938	38
Income tax expense	-	-	-	-	-	-	-	-	-	-	(803)	(535)
Minority interest	-	-	-	-	-	-	-	-	-	-	(232)	(411)
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	-	-	-	-	7,662	3,501
Segment assets	49,755	47,972	3,388	4,042	-	-	15,879	10,330	-	-	69,022	62,344
Investment in associates	-	-	10,283	2,919	746	716	-	-	-	-	11,029	3,635
Unallocated assets	-	-	-	-	-	-	-	-	-	-	(2,060)	(2,111)
Total assets	-	-	-	-	-	-	-	-	-	-	77,991	63,868
Segment liabilities	10,029	8,659	984	1,374	-	-	1,995	2,846	-	-	13,008	12,879
Payables on loans	-	-	-	-	-	-	-	-	-	-	10,298	1,876
Income tax expense	-	-	-	-	-	-	-	-	-	-	1,075	2,663
Minority interest	-	-	-	-	-	-	-	-	-	-	6,293	7,171
Total liabilities	-	-	-	-	-	-	-	-	-	-	30,674	24,589
Capital expenses	1,242	908	186	360	-	-	4,312	4,843	-	-	5,740	6,111
Cash flows from operating activities	1,875	2,250	597	419	-	-	2,441	360	-	-	4,913	3,029
Cash flows from investing activities	(1,933)	(1,056)	(130)	(86)	-	-	(8,541)	(4,794)	-	-	(10,604)	(5,936)
Cash flows from financing activities	(306)	(1,292)	(575)	(515)	-	-	9,303	116	-	-	8,422	(1,691)

2. Revenue

In BGN thousand	2004	2003
Sale of production	35,566	30,704
Sale of services	11,929	13,142
Sale of goods and materials	493	605
	47,988	44,451

3. Other operating income

In BGN thousand	2004	2003
Amortization of negative goodwill, net	12	600
Gain on disposal of property, plant and equipment		254
Other revenue		689
	1,543	2,250

4. Increase/(Decrease) in work in progress

In BGN thousand	2004	2003
Mashstroy PLC	451	(128)
Leyarmash AD	244	419
ZMM Sliven PLC	464	(151)
Augusta Mebel AD	(71)	(8)
Dockyard Port-Bourgas AD	175	241
ZMM Nova Zagora PLC	187	105
Elprom ZEM PLC	121	(113)
ZMM Bulgaria Holding AD	-	(214)
Chimremontstroy AD	-	(800)
	1,571	(649)

5. Cost of assets sold

In BGN thousand	2004	2003
Industrial Holding Bulgaria PLC	-	17
Mashstroy PLC	38	116
Leyarmash AD	73	39
ZMM Sliven PLC	65	67
Augusta Mebel AD	66	31
Dockyard Port-Bourgas AD	9	9
ZMM Nova Zagora PLC	56	62
Elprom ZEM PLC	-	42
ZMM Bulgaria Holding AD	(14)	-
Chimremontstroy AD	-	187
	293	570

6. Other operating expenses

In BGN thousand	Note	2004	2003
Cost of materials sold		26	40
Impairment	7	198	180
Provisions for legal obligations		-	60
Other expenses		1,060	419
		1,284	699

7. Impairment losses

In BGN thousand	2004	2003
Impairment of receivables	198	180
	198	180

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	2004	2003
Wages and salaries	8,546	8,536
Compulsory social security contributions	3,071	3,078
	11,617	11,614

The average staff number for the Group in 2004 was 1,817 employees (2003: 1,849 employees).

9. Net financial income/(cost)

In BGN thousand	2004	2003
Interest expense	(571)	(414)
Interest income	147	254
Dividend income	6	504
Net foreign exchange gain/(loss)	(292)	(314)
Net profit resulting from trading with investments	280	1,402
Net profit/(loss) from disposal of a subsidiary	-	(482)
Other financial profit/(loss), net	(179)	(160)
	(609)	790

10. Income tax expense**Recognised in the income statement**

In BGN thousand	Note	2004	2003
Current tax expense			
Current year		707	259
Under/(over) provided in prior years		-	-
		707	259
Deferred tax expense			
Origination and reversal of timing differences		19	314
Decrease in the tax rate		68	2
Benefit of tax losses recognised		9	(40)
	16	96	276
Total income tax expense in income statement		803	535

Current income tax expense has been calculated using a rate of 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

11. Property, plant and equipment

As at the end of 2002 the Group has 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 have temporarily been out of use and thus no depreciation has been charged for them in 2004.

The carrying amount of these assets is BGN 1,303 thousand and have not been revalued based on a valuation of independent valuer.

Part of the tangible non-current assets serves as a collateral of the bank loans of the Group (see also Note 23 Interest-bearing loans and borrowings).

12. Intangible non-current assets

In BGN thousand	Patents and trade-marks	Software	Other intangible assets	Total
Carrying amount				
At 1 January 2004	88	48	26	162
At 31 December 2004	152	35	15	202

The depreciation charge for the intangible non-current assets for the year ending 31 December 2004 amount to BGN 60 thousand (2003: BGN 72 thousand). Due to the fact that the intangible non-current assets owned by the Group are an immaterial part, no detailed note has been prepared on their movement during 2004.

Goodwill

In BGN thousand	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)

12. Intangible non-current assets, continued

Amortisation charge of positive goodwill

The net amortisation charge of the positive and negative goodwill is recognised in other operating income in the income statement.

The positive goodwill arising from the acquisition of ZMM Bulgaria Holding AD amounting to BGN 2,136 thousand is to be amortised over a five-year period starting from 2002 and the charge for the year 2004 is BGN 427 thousand. The positive goodwill arising from the acquisition of Dockyard Bourgas AD amounting to BGN 499 thousand is to be amortized over a five-year period from the date of acquisition with the charge for 2004 being BGN 46 thousand which leaves the goodwill completely amortised as at the balance sheet date. The positive goodwill formed related to the acquisition of the Bulgarian Register of Shipping AD as at 31 December 2003 is completely amortised after final amortization charge of BGN 372 thousand.

Negative goodwill

The negative goodwill is being recognised in the income statement as other operating revenue.

In BGN thousand	2004	2003
Augusta Mebel AD	-	334
Elprom ZEM PLC	122	122
ZMM Sliven PLC	-	-
ZMM Nova Zagora PLC	679	679
Mashstroy PLC	644	644
Bulgarian Register of Shipping AD	-	-
Total negative goodwill amortization	1,445	1,779

Negative goodwill is recognised as income in the income statement in the period when future losses and expenses are expected to be incurred. The negative goodwill arising from the acquisition of Augusta Mebel AD is BGN 560 thousand and was recognised as income in the period in which it is expected to generate losses. The same policy was adopted with respect to the negative goodwill arising from the acquisition of Elprom ZEM PLC, the income recognized is in accordance with the losses accrued. The negative goodwill arising from the acquisition of ZMM Sliven PLC and amounting to BGN 849 thousand was recognized as income over a five-year period starting from 1998. The acquisition of ZMM Nova Zagora PLC resulted in a negative goodwill of BGN 3,393 which is to be recognised as income over a five-year period starting from 2002. The negative goodwill resulting from the acquisition of Mashstroy PLC and amounting to BGN 2,867 thousand is to be amortised over a five-year period starting 2001. The negative goodwill arising from the acquisition of the Bulgarian Register of Shipping AD amounts to BGN 65 thousand and has been fully charged to income in 2002, in order to net off the losses generated throughout the year. At the end of 2004 the Group acquires 39% of Sano Maritime Holding resulting in a negative goodwill at the amount of BGN 371 thousand.

12. Intangible non-current assets, continued**Negative goodwill, continued**

The closing balance of the negative goodwill could be analysed as follows:

In BGN thousand	2004	2003
Elprom ZEM PLC	364	486
ZMM Nova Zagora PLC	1,357	2,036
Mashstroy PLC	829	1,289
Sano Maritime Holding AD	371	-
Total negative goodwill in balance sheet	2,921	3,811

13. Investments in associates

The Group possesses the following investments in associates:

	Country	Ownership
Dunav Tours AD	Bulgaria	45,43%
Chimremontstroy AD	Bulgaria	25,86%
Bulyard AD	Bulgaria	25,00%
Istrum Travel	Cyprus	50,00%

The Group's share in the post-acquisition reserves of Dunav Tours AD for the year ended 31 December 2004 amounts to BGN 176 thousand. The financial result for the year includes the goodwill income recognized for this year to the amount of BGN 67 thousand. In 2004 another 0,42% of the capital of the above mentioned company were acquired and thus the share of the Group reaches 45,43% for which consideration of BGN 29 thousand was paid.

The Construction division (subsidiaries Chimremontstroy AD and HEM AD), which has been reported as a discontinuing operation is an associate since 2003, as the Group still possesses 25,86% of its capital.

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 participates in the increase of the capital of Bulyard AD from BGN 50 thousand to BGN 24,019 thousand, subscribing 5,992,245 shares from that increase.

The movements in the investment in Bulyard AD could be analysed as follows:

In BGN thousand	2004	2003
Bulyard AD		
At 1 January 2004	13	-
Share of increase in net assets	101	-
Incorporation and increase of the capital	5,992	13
At 31 December 2004	6,106	13

The movements in the investment in Dunav Tours AD could be analysed as follows:

In BGN thousand	2004	2003
Dunav Tours AD		
At 1 January 2004	2,906	2,760
Share of increase in net assets	176	64
Amortisation of goodwill	67	67
Additionally purchased shares	29	15
At 31 December 2004	3,178	2,906

Chimremontstroy AD		
As at April 2004	716	809
Share of profit	30	(93)
At 31 December 2004	746	716

Istrum Travel		
Investment	19	-
Share of increase in net assets	2,564	-
Dividends paid	(1,584)	-
At 31 December 2004	999	-
At 31 December 2004	11,029	3,635

14. Other investments

In BGN thousand	% ownership	2004	% ownership	2003
ELPO AD	17.99%	121	17.99%	121
Dockyard Odesos PLC	17.05%	1,100	18.35%	1,186
Transbalkan Oil Pipeline Bulgaria AD	14,29%	429	14,29%	429
Sheraton Sofia PLC	-	-	0.67%	82
Other	-	12	-	33
		1,662		1,851

In accordance with IAS 39 the Group states available-for-sale investments at fair value, where such is reliably determinable. Active trading is necessary for the investment in entities traded on the stock exchange. When reliable estimate of the fair value is not available the investments are stated as either acquisition cost or the value as per latest valuation.

15. Other financial assets

In May 2003 the company acquired an option for the purchase of USD 3 million at a fixed exchange rate of the US dollar to the Euro. The option is sold in 2004.

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

In BGN thousand	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
Property, plant and equipment	-	-	1,870	2,387	1,870	2,387
Trade and other receivables	(52)	(40)	-	-	(52)	(40)
Provisions	(75)	(157)	-	-	(75)	(157)
Provision for retirement compensations	(29)	(41)	-	-	(29)	(41)
Other payables	(27)	(31)	10	18	(17)	(13)
Tax losses carried forward	(156)	(163)	-	-	(156)	(163)
Net tax (assets)/liabilities	(339)	(432)	1,880	2,405	1,541	1,973

The Company's applicable tax rate represents the statutory corporate income tax rate, which for 2004 is 19.5%. The applicable tax rates used for calculation of the deferred tax liabilities are 15 % for 2004 and 19.5% for 2003.

Movements in timing differences during the year

In BGN thousand	Balance 1 January 2004 Restated	Recognised in income	Recognised in equity	Balance 31 December 2004
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)
Tax value of loss carry-forwards utilised	(163)	7	-	(156)
	1,973	96	(528)	1,541

17. Inventories

In BGN thousand	2004	2003
Raw materials and consumables	4,278	4,351
Work in progress	4,959	4,376
Finished goods	1,955	1,401
Merchandise	33	43
	11,225	10,171

18. Trade and other receivables

In BGN thousand	Note	2004	2003
Trade receivables		2,983	3,270
Court receivables		43	70
Related parties receivables	28	84	410
Taxes receivable		576	482
Other receivables		402	344
Prepayments and deferred expenses		38	107
		4,126	4,683

19. Long term receivables

In BGN thousand	2004	2003
Mak - Gabrovo	280	350
ELPO - Nikolaevo	-	192
Chimremontstroy Engineering AD	626	939
Other long term receivables	376	255
	1,282	1,736

20. Cash and cash equivalents

In BGN thousand	2004	2003
Cash at bank	8,010	5,196
Cash in hand	93	176
	8,103	5,372

21. Share capital and reserves

Share capital is stated at nominal value as per court registration.

At 31 December 2004 the authorised share capital comprised 21,003,235 ordinary shares (2003: 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	2004	2003
	31 December 2004	%	%
Venside Enterprises Ltd	7,626,799	36.31%	36.31%
Other legal entities	2,056,679	9.79%	5.45%
Individuals	11,319,757	53.90%	58.24%
	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 earnings per share

The calculation of basic earnings per share at 31 December 2004 was based on the net profit attributable to ordinary shareholders of BGN 7,662 thousand (2003: BGN 3,501 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2004 of 21,003,235 (2003: 21,003,235), calculated as follows:

Net profit attributable to ordinary shareholders

In BGN thousand	2004	2003
Net profit for the year	7,662	3,501
Net profit attributable to ordinary shareholders	7,662	3,501

Weighted average number of ordinary shares

In thousands of shares	2004	2003
Issued ordinary shares at 1 January 2004	21,003	21,003
Number of ordinary shares at 31 December 2004	21,003	21,003
Weighted average number of shares at 31 December 2004	21,003	21,003

Earnings per share for continuing operations

For the year ended 31 December 2004, earnings per share for continuing operations has been calculated using the same figures as earnings per share, except that the net profit for the year used in the calculation is the net profit relating to continuing operations of BGN 7,662 thousand (2003: BGN 3,481 thousand).

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	2004	2003
Non-current liabilities			
Secured bank loans		2,087	324
		2,087	324
Current liabilities			
Current portion of secured bank loans		2,990	1,552
		2,990	1,552
Debenture loan			
Long term part		5,221	-
Short term part	25	158	-
		5,379	-

The subscription of convertible debentures, issued by Industrial Holding Bulgaria PLC was successfully finalised on 2 July 2004.

Details of the bond issue 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.

The first interest payment was made as at the date of preparation of these financial statements.

23. Interest-bearing loans and borrowings, continued

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%	400	100	300
EUR 150 thousand - monthly - LIBOR +5,5%	196	-	196
BGN 75 thousand - variable around 9,28%	75	75	-
EUR 140 thousand - variable around 12%	274	274	-
EUR 200 thousand - variable around 12%	391	391	-
BGN 155 thousand - variable around 12%	155	155	-
BGN 115 thousand - variable around 12%	115	60	55
BGN 732 thousand - variable around 12%	732	504	228
USD 2,000 thousand - interest rate 4,6%	2,394	1,150	1,244
BGN 106 thousand - interest rate 9,70%	106	106	-
BGN 64 thousand - interest rate 9,50%	64	-	64
BGN 175 thousand - variable around 10,50%	175	175	-
	5,077	2,990	2,087

Bank loans are secured with land and buildings (with book value of BGN 1,196 thousand), machines and equipment (with book value of BGN 5,067 thousand), transport vehicles (with book value of BGN 132 thousand). Dockyard port-Bourgas AD is also pledged as a company.

24. Provisions

In BGN thousand	Retirement compensations	Warranties	Law suites	Total
Balance at 1 January 2004, restated	289	185	1,372	1,846
Provisions accrued during the year	101	131	55	287
Reintegrated provisions	(37)	(143)	(402)	(582)
Balance at 31 December 2004	353	173	1,025	1,551

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 underlined by historical warranty data associated with similar products and services.

Lawsuits provisions

The estimated provision, amounting to BGN 1,025 thousand is based on a 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 Machstroy PLC. At 31 December 2003 the accrued provision for the ZUNK liability amounted to BGN 546 thousand. In 2004 the estimate was corrected and the comparative information was restated by BGN 383 thousand. Machstroy 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	2004	2003
Dividends payable		1,346	1,415
Trade payables		5,508	7,039
Payables to employees		645	748
Social security due		291	364
Payable to the budget		1,075	690
Advance payments received		331	5
Short term part of debenture loan	23	158	-
Other		1,500	1,215
		10,854	11,476

26. Financial instruments

The exposure to credit, interest rate and foreign currency risk arises in the normal course of the Group's business. However, 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. As it operates constantly with insufficient working capital, 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%	8,103	8,103	-	-
Debenture loan	23	6.26%	(5,379)	(158)	-	(5,221)
Secured bank loans	23	4.6%-12%	(5,077)	(2,990)	(1,991)	(96)
Total			(2,353)	4,955	(1,991)	(5,317)

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	2004	2003
Long term payables to National Reserve	137	230
Other long term payables	-	17
	137	247

Long term payables comprise of long term payables to the State Reserve and war-time reserve. The total amount of the liability is BGN 287 thousand including a short term part in the amount of BGN 150 thousand which is presented as other short term liability.

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 13) and with its directors and executive officers.

Transactions with directors and executive officers

In thousands of BGN	2004
Salaries and social security of the Executive Director, Managing Board and Supervisory Board	81
Management guarantees withheld	2
Loan receivables, including interests - member of the Managing Board	10

Other related party transactions

Associates

The transactions with associates as at 31 December 2004 are as follows:

Dunav Tours AD	Income from sales of services	80
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At 31 December 2004 the Group has the following receivables from related parties:

Bulyard AD	Receivables from overpaid capital	71
Loan receivables, including interests - physical person, member of the Managing Board		10
Other		3
Total:		84

29. Group companies

Significant subsidiaries

	Country of incorporation	Ownership interest	
		2004	2003
Privat Engineering AD	Bulgaria	100	100
Augusta Mebel AD	Bulgaria	97.86	97.86
Hydro Power Bulgaria AD	Bulgaria	67.00	67.00
ZMM Bulgaria Holding AD	Bulgaria	100	100
ZMM Sliven PLC	Bulgaria	80.65	80.44
ZMM Nova Zagora PLC	Bulgaria	87.06	87.06
Leirmash AD	Bulgaria	66	66
Mashstroy PLC	Bulgaria	75.78	73.07
Elprom ZEM PLC	Bulgaria	82.19	82.19
Dockyard Port-Bourgas AD	Bulgaria	91.44	91.28
Build 2000 AD	Bulgaria	100	100
KLVK AD	Bulgaria	100	50
International Industrial Holding AG	Switzerland	100	100
Sano Maritime Holding AD	Bulgaria	90	51
Bulgarian Register of Shipping AD	Bulgaria	90	51

30. Subsequent events

On the grounds of Art. 110 of the Obligations and Contracts Act the prescription period for payment of the dividend for 1997, distributed by the holding, has expired on 28 May 2003. Therefore, since 1 March 2005, Industrial Holding Bulgaria PLC ceases dividend payments for 1997. With a decision of the Managing Board, the unpaid part of the dividends at 1 March 2005 at the amount of BGN 1,323 thousand is written off and transferred to the Company's reserves.

Industrial Holding Bulgaria PLC sold its all shares in Dockyard Odesos after the balance sheet date and realized profit of BGN 6,780 thousand.

In February the Group acquired 2,762,183 shares, or 11.5 % of Bulyard AD capital, and in April acquired additional 3,602,9847 shares, or 15% of the company shares. The acquisition cost of the purchased shares amounts to the total of BGN 8,275 thousand. The Company's participation in Bulyard AD capital was increased to 51.5% and it became its major shareholder. The latter owns 75% of Bulyard Shipbuilding Industry AD capital.

In March 2005 the management of Industrial Holding Bulgaria PLC approved a decision for participation in Odessos PMB AD, city of Varna, with main activity port services and other related services related to sea vessels and land transport vehicles with a total capital of BGN 5,280 thousand. The Company invested in 30% of the share capital of Odessos PMB AD. The Company has a licence for a port with regional importance.

In April 2005 the Group purchased 0.87% from the capital of Bulgartabac AD for BGN 2,077 thousand.

The property in Shkorpilovtzi resort, acquired by a subsidiary with a carrying amount of BGN 3,465 thousand has been sold.

In May 2005 Bulyard Shipbuilding Industry AD signed a contract with Navigation Maritime Bulgare for construction of 3 ships at the total amount of EUR 58.5 million with contract term 20-21 months.

31. Commitments

As at 31 December 2004 the company has guaranteed liabilities of subsidiaries by accepting promissory notes to a total amount of BGN 314 thousand, of which BGN 100 thousand relate to a bank loan and BGN 214 thousand concern guarantees for satisfactory performance. A subsidiary has issued a promissory note at the amount of BGN 188 thousand as collateral for two court cases. See also note 23.

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