Consolidated Financial Statements

for the year ended 31 December 2006
With Independent Auditors' Report Thereon

INDUSTRIAL HOLDING BULGARIA

Independent Auditors' Report

To the shareholders of
"Industrial Holding Bulgaria" AD

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of "Industrial Holding Bulgaria" AD, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of "Industrial Holding Bulgaria"AD as of 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union,as described in Note 2(a) in those financial statements.

Steve Nutley
Partner

Dobrina Kaloyanova
Registered Auditor

0293 Добрина Калоянова
Регистриран одитор

Sofia, 10 May 2007
KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia 1142
Bulgaria

Consolidated income statement

For the year ended 31 December 2006 In thousands of BGN	Note	2006	2005
Revenue	6	132,404	70,097
Other operating revenue	7	2,684	22,033
Increase in work- in- progress	8	5,830	9,071
Cost of materials	9	(75,993)	(32,983)
Hired services	10	(21,027)	(13,918)
Depreciation and amortization		(3,903)	(2,855)
Personnel expenses	11	(27,673)	(20,122)
Cost of assets sold	12	(617)	(1,043)
Other operating expenses	13	(3,519)	(2,984)
Profit from operations		8,186	27,296
Finance income		3,618	7,911
Finance expenses		(951)	(894)
Net finance income	14	2,667	7,017
Income from equity accounted associates	18	1,972	1,416
Profit before tax		12,825	35,729
Income tax expense	15	(1,789)	(4,180)
Profit after tax		11,036	31,549
Attributable to equity holders of the company		9,647	29,898
Minority interest		1,389	1,651
Net profit for the year		11,036	31,549
Basic earnings per share(BGN)	26(i)	0,459	1,423
Diluted earnings per share (BGN)	26(ii)	0,373	1,143

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 79 to 105.

Daneta Zheleva
Executive Director

Toshka Vassileva
Chief Accountant

Steve Nutley
Partner

Dobrina Kaloyanova
Registered Auditor

KPMG Bulgaria OOD
37, Fridtjof Nansen Str.
Sofia 1142

Consolidated balance sheet

For the year ended 31 December 2006 In thousands of BGN	Note	2006	2005
Assets			
Property, plant and equipment	16	56,391	53,334
Intangible assets	17	677	183
Goodwill	17	6,318	5,520
Investments in equity accounted associates	18	9,077	7,706
Other investments	19	8	242
Long-term receivables	20	1,185	943
Total non-current assets		73,656	67,928
Inventories	21	49,559	30,204
Trade and other receivables	22	33,032	34,460
Financial assets held for trade	23	1,361	1,310
Cash and cash equivalents	24	17,310	21,864
Total current assets		101,262	87,838
Total assets		174,918	155,766
Equity			
Issued capital	25	21,003	21,003
Reserves		15,296	13,735
Retained earnings (net)		56,356	47,321
Total equity attributable to equity holders of the company		92,655	82,059
Minority interest		20,903	21,303
Total equity		113,558	103,362
Liabilities			
Interest-bearing loans and borrowings	27	6,757	503
Debenture loan	27	-	5,233
Other long-term payables	28	21	24
Provisions	29	889	2,686
Deferred tax liabilities	30	1,136	1,348
Total non-current liabilities		8,803	9,794
Interest-bearing loans and borrowings	27	2,892	2,052
Debenture loan	27	5,244	-
Trade and other payables	31	44,315	40,322
Provisions	29	106	236
Total current liabilities		52,557	42,610
Total equity and liabilities		174,918	155,766

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 79 to 105.

Daneta Zheleva
Executive Director

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

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

Consolidated statement of cash flows

For the year ended 31 December 2006
In thousands of BGN

	Note	2006	2005
Operating activities			
Net profit for the year		11,036	31,549
Adjustments for:			
Depreciation and amortisation	16,17	3,903	2,855
Provisions		1,685	1,378
Foreign exchange losses, net	14	(778)	166
Interest expense	14	628	673
Interest income	14	(1,280)	(438)
(Income)/loss from associates	18	(1,972)	(1,416)
(Gain)/loss on disposal of subsidiary		(549)	283
(Gain)/loss on sale and writing-off of property, plant and equipment	7a	(1,541)	20,469
(Loss)/gain derived from investments available-for-sale		(6)	(6,828)
(Loss)/gain derived from investments held for trading		(338)	134
Income tax expense	15	1,789	4,180
Operating profit before changes in working capital and provisions		12,575	12,067
(Increase)/decrease in trade and other receivables		(12,963)	(28,852)
(Increase)/decrease in inventories		(19,355)	(3,105)
Increase/(decrease) in trade payables, other payables and provisions		2,997	21,871
Cash generated from operations		(16,746)	1,981
Interest paid		(370)	(381)
Income taxes paid		(4,664)	(1,462)
Cash flows from operating activities		(21,780)	138
Investing activities			
Proceeds from sale of plant and equipment		22,950	13,579
Proceeds from sale of shares in subsidiaries		766	339
Interest received		1,280	438
Acqusition of subsidiary, net of cash disposed		-	(7,725)
Proceeds from sale of investments available for sale		34	7,928
Sales of investment held for trading		287	639
Sales of investment in associates		327	-
Acquisition of associates		-	(1,600)
Acquisition of property, plant and equipment		(4,160)	(2,075)
Acquisition of minority interest		(1,509)	-
Acquisition of other investments		-	(2,083)
Dividends received		-	1,526
Cash flows from investing activities		19,975	10,966

Consolidated statement of cash flows, continued

For the year ended 31 December 2006
In thousands of BGN

	Note	2006	2005
Financing activities			
Loans received		9,955	2,059
Loans repaid		(2,850)	(5,438)
Loans provided		(6,259)	-
Payments for lease contracts		-	(65)
Other financial expenses paid		(637)	(1,109)
Dividends paid		(286)	(179)
Cash flows from financing activities		(77)	(4,732)
Net increase in cash and cash equivalents		(1,882)	6,372
Cash and cash equivalents at 1 January	24	14,475	8,103
Cash and cash equivalents at 31 December	24	12,593	14,475

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 79 to 105.

Daneta Zheleva
Executive Director

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

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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 2006 In thousands of BGN	Note	Share capital	Additional and legal reserves	Re-valuation reserves	Retained earnings	Total Group	Minority interest	Total
Balance at 1 January 2005		21,003	4,915	6,982	17,892	50,792	6,357	57,149
Recognised profit for the current year		-	-	-	29,898	29,898	1,651	31,549
Allocation of statutory and additional reserves		-	520	-	(520)	-	-	-
Dividend write-off for 1997 profit		-	1,323	-	-	1,323	-	1,323
Other movements		-	27	(32)	51	46	-	46
Dividends paid		-	-	-	-	-	(102)	(102)
Acquisition of controlling interest		-	-	-	-	-	15,522	15,522
Acquisition of minority interest		-	-	-	-	-	(2,125)	(2,125)
Balance at 31 December 2005		21,003	6,785	6,950	47,321	82,059	21,303	103,362
Change in accounting policy	3 (i)		-	-	491	491	574	1,065
Adjusted balance as at 1 January 2006		21,003	6,785	6,950	47,812	82,550	21,877	104,427
Recognised profit for the current year		-	-	-	9,647	9,647	1,389	11,036
Change of tax rate		-	-	526	-	526	72	598
Revaluation reserve for assets written-off		-	-	(155)	155	-	-	-
Allocation of additional reserves		-	1,190	-	(1,190)	-	-	-
Other movements		-	-	-	(68)	(68)	101	33
Dividends paid		-	-	-	-	-	(292)	(292)
Acquisition of minority interest	17(iii)	-	-	-	-	-	(2,460)	(2,460)
Disposal of minority interest		-	-	-	-	-	216	216
Balance at 31 December 2006	25	21,003	7,975	7,321	56,356	92,655	20,903	113,558

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 79 to 105.

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Notes

to the consolidated financial statements

INDUSTRIAL HOLDING BULGARIA

1. Reporting entity

Industrial Holding Bulgaria AD (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 2006 comprise the financial statements of 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, port services, support services to vessels and vehicles, maintenance and repair and other services.

Industrial Holding Bulgaria AD as well as some of the subsidiaries are traded on the Bulgarian Stock Exchange - Sofia.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.
Under Accountancy Act in force as from 1 January 2006, the International Financial Reporting Standards (IFRS) adopted by the European Union 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 the date of approval of the financial statements by the Management of the Company, only the adopted IFRS by the European Union in force as from 1 January 2005 were adopted by the Council of Ministers with decree 207/7.08.2006 and were published in Bulgarian in the State Gazette, issue 66/15.08.2006. In view of this fact, the present financial statements have been prepared on the basis of IFRS adopted by the European Union applicable for 2006 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 Financial Reporting Standards adopted in Bulgaria by the Council of Ministers with decree N207/07.08.2006 and published in State Gazette, issue 66/15.08.2006. As a result of the review, no significant differences were identified in the reported amounts of assets and liabilities, income and expenses. The financial statements were approved by the management of the Group on 4 May 2007.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following :

- land, buildings, plant, machinery and equipment, acquired previous to 2003, which are presented at a revalued amount, reduced with the accumulated depreciation and impairment losses,
- financial assets held for trading and financial assets available for sale, which are presented at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Bulgarian Lev (BGN), which is the Company's functional currency. All financial information presented in leva has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:
Note 16 – Property, plant and equipment
Note 17 – Intangible assets
Note 22 – Trade and other receivables
Note 23 – Financial assets held for trade
Note 29 – Provisions
Note 30 – Deferred tax

3. Significant accounting policies

Except as described below, the accounting policies have been consistently applied by Group enterprises and are consistent with those used in the previous year.

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.

(i) Change of accounting policy

In 2006, the company Bulyard Shipbuilding Industry AD has changed its accounting policy regarding the accounting of indirect production costs. In prior periods, the Company recorded partially its indirect production costs as administrative expenses, and charged them as expenses for the period in which they occurred. As of 1 January 2006, those indirect production costs that were previously accounted as administrative expenses were booked as part of the cost of production and services for which part was recognized as work-in-progress in the balance sheet. Management assessed the new policy as being more appropriate.

The change in accounting policy has been recognized and the comparative information for 2005 has been restated.

The opening balance of retained earnings for 2006 has been increased by BGN 1,065 thousand due to the following adjustments related to periods prior to 2006:

Construction in progress
The change in work-in-progress and the profit in the income statement for the year ended 31 December 2005 are increased by BGN 1,253 thousand.

Deferred tax liability
The part of administrative expenses that were recorded in the balance of work in progress as at 31 December 2005, were recorded as tax deductible expenses in 2006.

The ending balance of retained earnings for 2005 is decreased and the deferred tax liability is increased by BGN 188 thousand.

The effect of restatement on the income statement for 2005 is presented in the following table:

	Effect for 2005
Increase in the change of work-in-progress	1,253
Increase in the profit before tax	1,253
Increase in the income tax	(188)
Increase in the net profit for the year	1,065

The effect of restatement on the balance sheet for 2005 is presented in the following table:

	Effect as at 31 December 2005
Increase in the work-in-progress	1,253
Increase in the deferred tax liability	(188)
Increase in retained earnings	1,065

(a) 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 those 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.

(b) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to BGN at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to BGN at exchange rates at the reporting date. The income and expenses of foreign operations are translated to BGN at exchange rates at the dates of the transactions.

Foreign currency differences from translation are recognised directly in equity.

(c) Financial instruments

Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(i) Available-for-sale financial assets
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(ii) Investments at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

(iii) 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.

(iv) 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.

(v) 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.

(vi) Trade and other payables
Trade and other payables are stated at their amortised cost.

(d) Property, plant and equipment

(i) Recognition and measurement

Measurement at initial recognition
At initial recognitions, items of property, plant and equipment are measured at cost, which comprises its purchase price, including import duties and non-refundable purchase taxes and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Measurement after recognition
The group has chosen the revaluation model of IAS 16 for carrying land, buildings, plant and machinery at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subseqent accumulated impairment losses.

The fair value of items of land, buildings, plant and machinery is usually determined from market-based evidence by an appraisal that is undertaken by professionally qualified valuers.

The revaluation of items of land, buildings, plant and machinery is usually made every 5 years. An additional revaluation can be made when the fair value substantially changes from the carrying value within a shorter period.

The Group's land, buildings, plant and machinery were revalued to their fair market value based on estimates, by an independent registered valuer as at 31 December 2002. 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.

(ii) Reclassification to investment property
Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised directly in equity. Any loss is recognised immediately in profit or loss.

(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 recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Depreciation of assets commences when the asset is available for use, i.e. it is brought to a working condition for its intended use.

Depreciation of assets stops at the earlier of the dates when the asset is classified as held for sale and when it is written-off.

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Intangible assets

(i) Goodwill

Acquisitions

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) 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 h). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iii) Subsequent expenditure

Subsequent expenditure 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.

(iv) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives are as follows:

- patents and trademarks 7 years
- software products 5 years

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.

(g) Inventories

Inventories are measured 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.

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Share capital and reserves

The capital of the Group is presented at historical cost at the date of registration.

Additional and legal reserves comprise those reserves 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.

(j) Employee benefits

(i) Defined contribution plans

According to the current legislation, the Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Annual paid leave

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(iii) Other long-term employee benefits

The Group has an obligation to pay retirement benefits to those employees, who retire with the Group in accordance with the basic provisions of art.222 Para 3 of the Bulgarian Labor Code.

According to the provisions of the Labor code, on termination of the labor contract of a worker or an employee of the Group who has become entitled to retirement, the Group is due to pay him/her a compensation amounting to his/her double gross monthly salary. If a worker or an employee has work experience of 10 or more years in the company as at the date of retirement, he or she is entitled to compensation amounting to 6 gross monthly salaries.
At each balance sheet date the management makes an approximate estimation of the potential compensations due, using the current level of remuneration and accrues a provision.

(k) 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.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(iii) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is contaminated.

(iv) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Services rendered

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 the costs incurred compared to the total expected costs under the contract.

(iii) 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.

(iv) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) 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.

(p) 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. The Group's primary format for segment reporting is based on business segments.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

I*FRS 8 Operating segments* sets out requirements for disclosure of information about the entities operating segments and replaces IAS 14 *Segment reporting* and will become mandatory for the Group's 2009 financial statements. Management is currently assessing the impact of IFRS 8.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. The IFRIC is not expected to have any impact on the consolidated financial statements.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 is not expected to have any impact on the consolidated financial statements.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment, acquired prior to 2003 is based on market values determined by an independent registered valuer.

(ii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

5. Segment reporting

Segment information is presented in respect of the Group's business segments. The format 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 metal-cutting machines, production, repair and sales of electric machines; and foundry.

Shipbuilding and transportation services. The manufacture and reconstruction of ships and all types of vessels, as well as related services, transportation services, port activities, and classification and certification.

Other operations include provision of consulting services, production of furniture, real estate operations and others.

Geographical segments

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

5. Segment reporting, continued

Business segments	Machinery construction		Shipbuilding & transport		Other operations		Eliminations		Consolidated	
In BGN thousands	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Total revenue from external customers	49,964	44,042	80,070	23,199	5,054	25,089	-	-	135,088	92,130
Inter-segment revenue	82	-	-	8	674	379	(756)	(387)	-	-
Total revenue	50,046	44,042	80,070	23,207	5,728	25,468	(756)	(387)	135,088	92,130
Profit from operations	5,450	2,915	1,189	3,442	1,547	20,939	-	-	8,186	27,296
Net financing costs									2,667	7,017
Income/(loss) from associates	-	-	1,972	1,562	-	(146)	-	-	1,972	1,416
Income tax expense									(1,789)	(4,180)
Minority interest									(1,389)	(1,651)
Net profit for the year									9,647	29,898
Segment assets	47,912	43,853	86,974	61,128	18,353	37,559			153,239	142,540
Investment in associates	-	-	9,077	7,106	-	600			9,077	7,706
Unallocated assets									12,793	5,520
Total assets									175,109	155,766
Segment liabilities	10,882	11,921	31,874	26,352	2,716	2,009			45,472	40,282
Loan liabilities									14,893	7,946
Income tax liabilities									995	4,176
Total liabilities									61,360	52,404
Capital expenditure	3,870	819	5,576	1,098	169	114			9,615	2,031
Cash flows from operating activities	1,244	2,807	(8,227)	(1,003)	(14,797)	(1,666)			(21,780)	138
Cash flows from investing activities	333	(583)	(2,533)	4,315	22,175	7,234			19,975	10,966
Cash flows from financing activities	(729)	(996)	7,242	(475)	(6,590)	(3,261)			(77)	(4,732)

6. Revenue

In BGN thousand	2006	2005
Sale of production	110,611	44,988
Sale of services	18,759	23,297
Sale of goods and materials	3,034	1,812
	132,404	70,097

7. Other operating revenue

In BGN thousand	Note	2006	2005
Gain on disposal of property, plant and equipment	7a	1,541	20,469
Other revenue		1,143	1,564
		2,684	22,033

7a. Gain on disposal of property, plant and equipment

In BGN thousand	2006	2005
Income from sale of non-current assets	2,093	31,522
Carrying amount of assets sold	(552)	(9,047)
Other expenses on sale	-	(2,006)
Profit from sale of non-current assets	1,541	20,469

8. Increase in work- in- progress

In BGN thousand	2006	2005
Mashstroy AD	(60)	1,189
Leyarmash AD	(16)	(267)
ZMM Sliven AD	188	(72)
Augusta Mebel AD	188	(85)
Dockyard Bourgas AD	97	(20)
Bulgarian Ship Register AD	159	-
ZMM Nova Zagora AD	251	134
Elprom ZEM AD	1,263	466
Bulyard Shipbuilding Industry AD	3,760	7,726
	5,830	9,071

9. Expenses for materials

In BGN thousand	2006	2005
Primary materials	68,735	27,185
Supplementary materials	2,930	1,901
Energy	2,710	2,331
Repair parts	362	229
Others	1,256	1,337
	75,993	32,983

10. Expenses for hired services

In BGN thousand	2006	2005
Hired services	12,263	6,614
Repairs	1,107	1,639
Communications	363	346
Security	646	576
Naval fee registration and technical documentation	1,017	318
Provided guarantees	651	-
Insurance	1,058	366
Intermediation commissions	940	1,544
Advertisements	183	125
Rents	139	194
Other	2,660	2,196
	21,027	13,918

11. Personnel expenses

In BGN thousand	2006	2005
Wages and salaries	21,742	15,120
Compulsory social security contributions	5,931	5,002
	27,673	20,122

The average staff number for the Group in 2006 was 2,917 employees (2005 : 2,647 employees).

12. Cost of assets sold

In BGN thousand	2006	2005
Bulyard Shipbuilding Industry AD	278	843
Mashstroy AD	37	11
Leyarmash AD	3	3
ZMM Sliven AD	67	80
Augusta Mebel AD	10	31
Dockyard Bourgas AD	37	7
ZMM Nova Zagora AD	6	7
Elprom ZEM AD	81	43
ZMM Bulgaria Holding	98	18
	617	1,043

13. Other operating expenses

In BGN thousand	Note	2006	2005
Impairment	13a	390	389
Legal obligations and warranties		1,504	1,378
Business trip expenses		352	323
Other expenses		1,273	894
		3,519	2,984

13a. Impairment losses

In BGN thousand	2006	2005
Impairment of receivables	277	274
Impairment of inventory	113	115
	390	389

14. Net finance income/(expenses)

In BGN thousand	2006	2005
Finance income		
Interest income	1,280	438
Dividend income	35	43
Net foreign exchange difference	778	(166)
Unrealised profit/(loss) from revaluation of financial assets held for trade	281	(207)
Net profit resulting from trade with financial assets	1,215	6,567
Recognized negative goodwill	29	1,236
	3,618	7,911
Finance expenses		
Interest expense	(628)	(673)
Other financial profit /(loss), net	(323)	(221)
	(951)	(894)
	2,667	7,017

15. Income tax expense

Recognised in the income statement

In BGN thousand	Note	2006	2005
Current tax expense			
Current year		1,403	4,286
		1,403	4,286
Deferred tax expense			
Origination and reversal of timing differences		320	(106)
Decrease in the tax rate		84	-
Benefit of tax losses recognised		(18)	-
	30	386	(106)
Total income tax expense in income statement		1,789	4,180

Current income tax expense has been calculated using a rate of 15% valid for 2006 (2005 :15%), applied to the tax base. Deferred taxes are recognized applying the income tax rate for 2007 of 10% (2005 : 15%).

Reconciliation of effective tax rate

In BGN thousand		2006		2005
Profit for the period		11,036		31,549
Total income tax expense		1,789		4,180
Profit excluding income tax		12,825		35,729
Income tax using the tax rate of 15%	(15%)	(1,935)	(15%)	(5,361)
Non-deductible expenses	(3%)	(368)	(0%)	(31)
Reduction of tax rate	(1%)	(72)	0%	-
Tax exempt income – sales of shares	1%	105	3%	974
Tax exempt income – dividends	2%	314	0%	129
Other	1%	93	(1%)	(264)
Utilized tax losses from previous periods	1%	74	1%	373
	(14%)	(1,789)	(12%)	(4,180)

Income tax recognized directly in equity

In BGN thousand	2006	2005
Property, plant and equipment	598	4
	598	4

16. 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 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
Balance at 1 January 2006	31,207	29,317	2,806	782	64,112
Additions	2,300	1,911	499	4,295	9,005
Disposals	(583)	(373)	(163)	(1,510)	(2,629)
Transfers	106	2,491	137	(2,734)	-
Balance at 31 December 2006	33,030	33,346	3,279	833	70,488
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
Depreciation and impairment losses					
Balance at 1 January 2006	2,394	6,942	1,442	-	10,778
Depreciation charge for the year	834	2,567	374	-	3,775
Depreciation for assets written-off	(106)	(230)	(120)	-	(456)
Balance at 31 December 2006	3,122	9,279	1,696	-	14,097
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
Carrying amount					
At 1 January 2006	28,813	22,375	1,364	782	53,334
At 31 December 2006	29,908	24,067	1,583	833	56,391

As at the end of 2002 the Group revalued its land, buildings, plant and equipment to their fair value, based on estimates performed by 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 27).

First mortgage on land and buildings and first special pledge on machinery, plant and equipment with a book value of BGN 13,550 thousand as at 31 December 2006 have been issued to secure bank guarantees for a contract execution (refer to note 36 Contingent liabilities).

Machinery with book value of BGN 46 thousand has been pledged to secure a bank guarantee to 31 March 2007 with Burgas Customs' authority as the beneficiary.

17. Intangible 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
At 1 January 2006	111	31	41	183
At 31 December 2006	88	351	238	677

The depreciation charge for the intangible non-current assets for the year ending 31 December 2006 amount to BGN 128 thousand (2005 : BGN 63 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 2006 and 2005.

(i) Goodwill

In BGN thousand

	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
Balance at 1 January 2006	5,520	-	5,520
Increases through acquisition of minority interest	798	-	798
Balance at 31 December 2006	6,318	-	6,318

Effective from 1 January 2005 the Group applied the requirements of IFRS 3 Business combinations in the reporting of acquisitions and in the reporting of investments in associates for the preparation of consolidated financial statements. As a result of this the amortisation of positive goodwill has been discontinued and instead the goodwill is tested for impairment. Additionally, previously recognised negative goodwill that had been capitalised and recorded in the balance sheet of BGN 2,915 thousand, was written off against opening retained earnings at 1 January 2005.

(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	2006	2005
Elprom ZEM AD	-	-
ZMM Nova Zagora AD	29	183
Mashstroy AD	-	283
ZMM Sliven AD	-	761
Dockyard Port Burgas AD	-	9
Sano Maritime AD	-	-
Total negative goodwill, recognised in the Income statement	29	1,236

(iii) Acquisition of subsidiaries

Acquisition of minority interest

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	%	Net assets	%
ZMM Nova Zagora AD	135	2.47	218	4.04
ZMM Sliven AD	-	-	877	12.24
Hydropower AD	3	10.00	-	-
Mashstroy AD	-	-	373	5.04
Leyarmash AD	-	-	646	34.00
Dockyard Port Burgas AD	-	-	10	0.28
Bulyard AD, Bulyard Shipbuilding Industry AD	2,322	7.50	9,715	38.62
	2,460		11,840	

The Group acquired 2.47% of the capital of ZMM Nova Zagora AD in November 2006 and paid BGN 106 thousand. Because of the acquisition negative goodwill in the amount of BGN 29 thousand has been recognized.

The Group acquired 5000 shares, amounting to 10% of the capital of Hydropower AD for BGN 5 thousand. Because of the acquisition, goodwill in the amount of BGN 2 thousand has been recognized.

The Group acquired 2,401,898 ordinary voting shares, consisting of 10% of the capital of Bulyard AD for BGN 3,120 thousand from Dockyard Odessoss. After the acquisition the Group's interest in Bulyard AD increased to 61.50%. Bulyard AD is a majority shareholder of 75% of the capital of Bulyard Shipbuilding Industry AD. Because of the deal, goodwill in the amount of BGN 798 thousand was recognized.

18. Investments in equity accounted associates

The Group has the following investments in associates	Country	Ownership 2006	Ownership 2005
Dunav Tours AD	Bulgaria	48.39%	48.39%
Chimremontstroy AD	Bulgaria	-	25.86%
Istrum Travel	Cyprus	50.00%	50.00%
Odessos PBM AD	Bulgaria	30.00%	30.00%

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

In BGN thousand	Ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit / (loss)
2005										
Dunav Tours AD	48.39%	2,293	21,159	23,452	3,822	8,976	12,798	8,892	(7,910)	982
Chimremontstroy AD	25.86%	5,312	5,305	10,617	5,312	116	5,428	16,003	(15,810)	193
Istrum Travel	50.00%	2,658	82	2,740	1,981	-	1,981	17,401	(15,472)	1,929
Odessos PBM AD	30.00%	869	4,468	5,337	125	1	126	390	(459)	(69)
		11,132	31,014	42,146	11,240	9,093	20,333	42,686	(39,651)	3,035
2006										
Dunav Tours AD	48.39%	860	41,298	42,158	18,254	11,336	29,590	11,996	(10,163)	1,833
Istrum Travel	50.00%	3,778	82	3,860	1,047	-	1,047	19,764	(17,710)	2,054
Odessos PBM AD	30.00%	622	4,792	5,414	117	-	117	789	(703)	86
		5,260	46,172	51,432	19,418	11,336	30,754	32,549	(28,576)	3,973

18. Investments in equity accounted associates, continued

The movements in the investment in associates can be presented as follows:

In BGN thousand	2006	2005
Dunav Tours AD		
At 1 January	5,157	3,178
Adjustments according to IFRS 3	-	1,262
Share of increase in net assets	925	468
Reported goodwill from acquisition of 2.96 %	-	234
Additionally purchased shares	-	15
At 31 December	6,082	5,157

Chimremontstroy AD	2006	2005
At 1 January	600	746
Impairment	-	(146)
Disposal	(600)	-
At 31 December	-	600

Istrum Travel	2006	2005
At 1 January	379	999
Share of increase in net assets	1,027	875
Dividends paid for period	-	(1,495)
At 31 December	1,406	379

Odessos PBM AD	2006	2005
Investment	1,570	1,585
Share of increase of net assets	19	(15)
At 31 December	1,589	1,570
Total investments in associates at 31 December	9,077	7,706

During 2006, the group share of net assets in equity accounted investments has increased by BGN 1,971 thousand (2005: BGN 1,416 thousand). The Group sold in 2006 its 430,489 shares of Chimremontstroy AD. The shares, amounting to 25.86% of Chimremonstroy's capital, were sold for BGN 600 thousand.

19. Other investments

In BGN thousand	% ownership	2006	% ownership	2005
Elpo AD	-	-	17.99%	121
Transbalkan Oil Pipeline Bulgaria AD	-	-	14.29%	107
Meteko AD	-	7	-	7
Other	-	1	-	7
		8		242

The shares in Elpo AD were sold in 2006 for BGN 113 thousand. Because Transbalkan Oil Pipeline Bulgaria AD has not been able to fulfil the purpose of its incorporation, the Company shareholders at a General Meeting in October 2006 decided to liquidate the Company. After the liquidation procedure is completed, Industrial Holding Bulgaria AD will receive its share of the contributed capital which is now presented as short term receivables.

20. Long term receivables

In BGN thousand	2006	2005
Mak – Gabrovo	140	210
Chimremontstroy Engineering AD	586	313
Other long term receivables	459	420
	1,185	943

21. Inventories

In BGN thousand	Note	2006	2005
Raw materials and consumables		27,145	12,711
Work in progress	21a	17,950	12,868
Finished goods		2,795	2,459
Supplies		1,639	2,017
Merchandise		30	149
		49,559	30,204

21a. Work in progress

Work in progress includes:

In BGN thousand	2006	2005
Work in progress from shipbuilding	11,836	7,170
Work in progress from shiprepair	112	483
Work in progress from machine - building	5,967	5,215
Other	35	-
	17,950	12,868

22. Trade and other receivables

In BGN thousand	Note	2006	2005
Trade receivables		22,808	27,221
Court receivables		126	298
Related party receivables	33	6,298	-
Tax receivables		2,188	1,454
Other receivables		384	218
Prepayments and deferred expenses		1,228	5,269
		33,032	34,460

23. Financial assets held for trade

In BGN thousand	2006	2005
Shares at purchase cost	1,310	1,516
Disposals	(230)	-
Revaluation / (Impairment)	281	(206)
Cost at 31 December	1,361	1,310

The Group holds 38,555 ordinary shares of Bulgartaback Holding Plc in the amount of BGN 1,361 thousand (2005: 46,788 shares in the amount of BGN 1,310 thousand) at 31 December 2006. The Group sold 8,233 shares in 2006 (2005 : 17,312 shares). The shares are recognized at the value at which they have been quoted on the Bulgarian Stock Exchange as at 31 December 2006 – BGN 35.20 (as at 31 December 2005 – BGN 28.00 per share). As a result of this a revaluation has been reported against the shares' carrying value.

24. Cash and cash equivalents

In BGN thousand	2006	2005
Cash at bank	12,391	14,338
Cash in hand	202	137
Cash as per cash flow	12,593	14,475
Blocked cash	4,717	7,389
Cash and cash equivalents presented in the Balance sheet	17,310	21,864

To secure the issued bank guarantees in favour of third parties the amount of BGN 4,704 thousand (2005: BGN 2,399 thousand) has been blocked. Additionally, the amount of BGN 13 thousand (2005: BGN 46 thousand) has been blocked in relation to advances received which can not be utilized until the work is completed. The cash blocked as at 31 December 2005, amounting to BGN 4,944 thousand, represented amounts for collateral of letter of credits, opened in favour of suppliers in relation to activities for shipbuilding and shiprepair has been unblocked in 2006.

25. Share capital and reserves

Share capital is stated at nominal value as per court registration. At 31 December 2006 the authorised share capital comprised 21,003,235 ordinary shares (2005: 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 2006	2006 %	2005 %
Venside Enterprises Ltd	7,626,799	36.31%	36.31%
Other legal entities	4,616,960	21.99%	13.69%
DZH AD	1,422,442	6.77%	6.77%
Individuals	7,337,034	34.93%	43.23%
	21,003,235	100.00%	100.00%

Additional and statutory reserves

The additional and statutory reserves are formed by allocation of 10% of profit in accordance with the requirements of the Trade Act, and by allocating additional reserves from the retained profit. 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.

26. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the net profit attributable to ordinary shareholders of BGN 9,647 thousand (2005 : BGN 29,898 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 21,003,235 (2005 : 21,003,235), calculated as follows:

Net profit attributable to ordinary shareholders

In BGN thousand	2006	2005
Net profit for the year	9,647	29,898
Net profit attributable to ordinary shareholders	9,647	29,898

Weighted average number of ordinary shares

In thousands of share	2006	2005
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

(ii) Diluted earnings per share

The Company has one type of potential ordinary shares – issued convertible personal debentures with characteristics disclosed in note 27.

To calculate the diluted earnings per share, the weighted average number of ordinary shares is adjusted with the expected outcome of conversion, accepting that the General Meeting of the holding decides to convert all convertible debentures into ordinary shares and all debenture holders convert their debentures into ordinary shares.

In that case the calculation of diluted earnings per share at 31 December 2006 was based on the net profit attributable to ordinary shareholders of BGN 9,805 thousand (2005 : BGN 30,056 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares during the year ended 31 December 2006 of 26,284,130 (2005 : 26,284,130), calculated as follows:

Net profit attributable to ordinary shareholders (diluted)

In BGN thousand	2006	2005
Net profit attributable to ordinary shareholders (basic)	9,647	29,898
Interest expense on convertible notes, net of tax	158	158
Net profit attributable to ordinary shareholders (diluted)	9,805	30,056

Weighted average number of ordinary shares (diluted)

In thousands of shares	2006	2005
Issued ordinary shares at 1 January	21,003	21,003
Effect of conversion of convertible notes	5,281	5,281
Weighted average number of shares(diluted) at 31 December	26,284	26,284

27. 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 32.

In BGN thousand	Note	2006	2005
Non-current liabilities			
Secured bank loans		6,757	503
		6,757	503
Current liabilities			
Current portion of secured bank loans		2,892	2,052
		2,892	2,052
Debenture loan			
Non-current part		-	5,233
Current part		5,244	-
Current part – interest liabilities	31	158	158
		5,402	5,391

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

- Type: debentures convertible to ordinary shares;
- 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: Allianz Bulgaria;

Terms and debt repayment schedule

In BGN thousand	Total	1 year or less	Over 1 year
Secured bank loans:			
EUR 205 thousand – monthly - LIBOR + 3.25%	200	100	100
EUR 300 thousand – 3-month - LIBOR + 2.6%	488	488	-
BGN 75 thousand – variable around 9.28%	75	75	-
EUR 100 thousand – 3-month - LIBOR + 3.2%	147	147	-
EUR 450 thousand – 3-month - LIBOR + 2.5%	645	645	-
USD 400 thousand – 3-month - LIBOR + 3.75%	133	133	-
EUR 150 thousand – 3-month - LIBOR + 3.25%	167	118	49
BGN 200 thousand – fixed – 10.5%	200	200	-
EUR 1,000 thousand – monthly - EURIBOR + 3%	1,956	978	978
EUR 5,000 thousand – 6-month - EURIBOR + 2.15%	5,630	-	5,630
BGN 15 thousand – finance lease – no interest	8	8	-
	9,649	2,892	6,757

Bank loans are secured with a pledge on property, plant and equipment with book value of BGN 4,909 thousand at 31 December 2006 (2005: BGN 2,641 thousand). Dockyard Bourgas AD is also pledged as a company.
Promissory notes have been issued in favour of the Banks creditors, as follows:

- Raiffeissenbank Bulgaria EAD and TB Allianz Bulgaria AD in the amount of EUR 5,000 thousand to guarantee the terms in the agreement between the banks and Bulyard Shipindustry AD for working capital financing in the amount of EURO 5,000 thousand and to expand the bank guarantees for the building of new ships.
- TB Biochim AD, Raiffessenbank Bulgaria EAD and Obedinena Bulgarian Bank AD in the amount of BGN 1,263 thousand guaranteeing the bank loans to the subsidiaries – ZMM Sliven, Leyarmash and Elprom ZEM.
- The subsidiary Bulyard AD is a co-borrower with Bulyard Shipbuilding Industry AD of a investment loan from SG Expressbank Sofia in the amount of EUR 1,000 thousand.

28. Trade and other long-term payables

In BGN thousand	2006	2005
Other long-term payables	21	24
	21	24

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.

29. 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
Balance at 1 January 2006	576	236	2,110	2,922
Provisions accrued during the year	180	202	1,302	1,684
Reintegrated provisions	(141)	(95)	(3,375)	(3,611)
Balance at 31 December 2006	615	343	37	995
Including:				
Non-current	615	237	37	889
Current	-	106	-	106
	615	343	37	995

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 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, ship repairs performed by Dockyard Bourgas AD and warranties for shipbuilding contracts of Bulyard Shipbuilding Industry AD. The calculations of the provision are based on estimations based on historical warranty data associated with similar products and services and based on estimates by technical experts.

Lawsuits provisions

The estimated provision at 31 December 2006, amounting to BGN 37 thousand relates to lawsuits against Elprom ZEM AD. In 2005 this provision amounted to BGN 103 thousand and the remaining BGN 2,007 thousand related to a provision for loan repayments (principal and interest), in accordance with the Law for settlement of non-performing loans (ZUNK) of its subsidiary Mashstroy. In 2006 Mashstroy AD paid BGN 3,309 thousand of the ZUNK liabilities to minimize the risk. The Supreme Court of Cassation with decision 1064/29.04.2007 dismissed all lawsuits of Mashstroy AD against the Ministry of Finance.

30. 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	2006	2005	2006	2005	2006	2005
Property, plant and equipment	-	-	1,469	1,954	1,469	1,954
Trade and other receivables	(90)	(87)	-	-	(90)	(87)
Provisions	(35)	(66)	-	-	(35)	(66)
Impairment of current financial assets	-	(31)	-	-	-	(31)
Provision for retirement compensations	(41)	(31)	-	-	(41)	(31)
Other payables	(126)	(159)	-	-	(126)	(159)
Tax value of loss carry-forwards recognised	(41)	(232)	-	-	(41)	(232)
Net tax (assets)/liabilities	(333)	(606)	1,469	1,954	1,136	1,348

The applicable tax rates used for calculation of the deferred tax liabilities are 10 % for 2006 and 15% for 2005.

Movements in timing differences during the year

In BGN thousand	Balance 1 January 2006	Recognised in income	Recognised in equity	Balance 31 December 2006
Property, plant and equipment	1,954	113	(598)	1,469
Trade and other receivables	(87)	(3)	-	(90)
Impairment of current financial assets	(31)	31	-	-
Provisions	(66)	31	-	(35)
Provisions for retirement compensations	(31)	(10)	-	(41)
Other payables	(159)	33	-	(126)
Recognised tax asset from loss carried-forward from previous periods	(232)	191	-	(41)
	1,348	386	(598)	1,136

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

31. Other payables

In BGN thousand	2006	2005
Trade payables	12,592	10,435
Payables to employees	2,270	1,897
Social security due	722	616
Payable to the budget	995	4,176
Advance payments received	26,607	22,429
Short term part of debenture loan	158	158
Other	972	611
	44,315	40,322

32. 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.

2006

In BGN thousand	Note	Effective interest rate	Total	Up to 1 year	1-2 years	2-5 years
Cash and cash equivalents	24	0.2% - 3%	17,310	17,310	-	-
Receivables from related parties	22	6.5%	6,292	6,292	-	-
Debenture loan	27	6.26%	(5,244)	(5,244)	-	-
Secured bank loans	27	5.5% - 12%	(9,649)	(2,892)	(1,127)	(5,630)
Total			8,709	15,466	(1,127)	(5,630)

2005

In BGN thousand	Note	Effective interest rate	Total	Up to 1 year	1-2 years	2-5 years
Cash and cash equivalents	24	0.2% - 3%	21,864	21,864	-	-
Debenture loan	27	6.26%	(5,391)	(158)	-	(5,233)
Secured bank loans	27	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 tries to perform purchase and sale transactions with goods, production, services and investments in a comparable proportion in the respective different currencies.

33. 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 BGN thousand	**2006**	**2005**
Salaries and social security of the Executive Directors, Management Boards and Supervisory Boards, and Board of Directors	1,009	801
	1,009	801

Related party receivables

In BGN thousand	**2006**	**2005**
Dunav Tours AD – loan receivable	6,265	-
Dunav Tours AD – interest receivable	33	-
	6,298	-

Other related party transactions

Associates
The transactions with associates in the year, ended 31 December 2006 are as follows:

In BGN thousand	**2006**	**2005**
Income from sale of services from Dunav Tours	64	72
Income from sale of services from Dunav Tours Hotels AD	16	24
	80	96

34. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest 2006 %	2005 %
Privatengineering AD	Bulgaria	100.00	100.00
Augusta Mebel AD	Bulgaria	97.86	97.86
Hydropower Bulgaria AD	Bulgaria	77.00	67.00
ZMM Bulgaria Holding AD	Bulgaria	100.00	100.00
ZMM Sliven AD	Bulgaria	92.89	92.89
ZMM Nova Zagora AD	Bulgaria	93.57	91.10
Leyarmash AD	Bulgaria	100.00	100.00
Mashstroy AD	Bulgaria	80.81	80.81
Elprom ZEM AD	Bulgaria	79.75	82.19
Dockyard Bourgas AD	Bulgaria	91.72	91.72
KLVK AD	Bulgaria	100.00	100.00
International Industrial Holding Bulgaria AG	Switzerland	100.00	100.00
Maritime Holding AD	Bulgaria	61.00	61.00
Bulgarian Register of Shipping AD	Bulgaria	61.00	61.00
Bulyard AD	Bulgaria	61.50	51.50
Bulyard Shipbuilding Industry AD	Bulgaria	46.13	38.63
Bulkari EAD	Bulgaria	100.00	-
Emona Shipping Ltd	Malta	100.00	-
Marciana Shipping Ltd	Malta	100.00	-

35. Subsequent events

Industrial Holding Bulgaria AD participated proportionately in the capital increase of Bulyard AD by acquiring 8,163,510 new ordinary shares with par value BGN 1. The capital was increased two times – at 6 March 2007 and 20 April 2007. After the increase, the company capital amounts to BGN 37,293 thousand (BGN 24,019 thousand before the increase).

Bulyard AD used the first capital contribution (from 6 March 2007) to acquire the remaining 25% of Bulyard Shipbuilding Industry AD from Parahodstvo Morski Flot EAD. This acquisition increased the investment of Industrial Holding Bulgaria AD in the shipbuilding company to 61.5% from 46.13% at 31 December 2006 and made Bulyard AD the only shareholder.

The second capital contribution in Bulyard AD was used to increase the capital of Bulyard Shipbuilding Industry AD with BGN 5,000 thousand.

The capital of Privatengineering AD was increased in April 2007 by issuing 140 thousand new ordinary shares with par value BGN 1 and issue value BGN 7. The capital contribution is wholly paid-in.

The General meeting of ZMM Bulgaria Holding AD, held in March 2007, took a decision to distribute a dividend for 2006 in the amount of BGN 3,000 thousand.

After completing the requirements on 2 May 2007, a corporate guarantee, issued on 15 November 2006 to guarantee the third installment of a ship with construction number 457 in favor of the buyer Georgi Maritime Ltd (refer to note 36), was released.

During January – April 2007, the associate company Dunav Tours AD paid BGN 5,183 thousand of its payable to the Group amounting to BGN 6,298 thousand as at 31 December 2006 (refer to nore 22 and note 33).

36. Contingent liabilities

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. On 27 March 2006 the credit limit was increased respectively to EUR 12,505 thousand and USD 11,015 thousand. The loan is secured by first mortgage on land and buildings and first special pledge on machinery and equipment as disclosed in note 16.

The bank guarantees have been secured with promissory notes guaranteed by Bulyard AD in the amount of EUR 5,702 thousand and USD 13,537 thousand.

At the General Meeting on 15 June 2006 the shareholders of Industrial Holding Bulgaria decided to grant to the management the right to make deals under the application of art.236, al.2, p.3 from the Trade Act. The deals are for providing corporate guarantees (taking liability), that Industrial Holding Bulgaria AD will issue in favor of Bulyard Shipbuilding Industry AD's clients under shipbuilding contracts. The guarantees will not exceed EUR 10,630 thousand and USD 8,870 thousand and will be secured by first mortgage on land and buildings and first special pledge on machinery and equipment, owned by Bulyard Shipbuilding Industry AD.

In June 2006, the Company issued its first corporate guarantee in the amount of EUR 4,281 thousand and USD 3,729 thousand to secure the received third advance payment for the construction of ship 516. After the completion of the contracted work from Bulyard Shipbuilding Industry AD, the ship buyer, Maritime Ltd released the guarantee at 15 December 2006.

At 15 November 2006 Industrial Holding Bulgaria AD issued a corporate guarantee for third advance payment for ship with construction number 457 to the buyer Georgi Maritime Ltd in the amount of EUR 3,433 thousand and USD 2,978 thousand.

Industrial Holding Bulgaria secured the issue of bank guarantees from Bank DSK EAD in the amount of EUR 671 thousand to guarantee Elprom ZEM AD's payables to a client. An agreement is made for receiving a revolving credit for issuing bank guarantees and working capital financing with a limit of BGN 4,500 thousand. These are secured by a special pledge of Dockyard Bourgas AD, a subsidiary of the holding company.

At 31 December 2006 the Company issued guarantees in the amount of BGN 782 thousand to NEK on behalf of Elprom ZEM AD for performance under a public tender. It also issued guarantees to TB Bulbank, which provided bank guarantees in the amount of BGN 98 thousand to NSK Polska on behalf of Elprom ZEM by way of promissory notes.