

M+S Hydraulic PLC

**FINANCIAL
STATEMENT**

2005

Date of issue: 23.03.2006

Translation from Bulgarian

Alpha Audit Group
Specialized Auditor's Enterprise

AUDITOR'S REPORT

We performed an audit of the attached hereto balance sheet of **M+S HYDRAULIC JSC (the Company)** as of **31 December 2005** and the related to it profit and loss statement and a cash flow report for the year ending on this date. The responsibility for the preparation of these reports shall be borne by the management of the Company. Our responsibility shall be reduced to the expression of an opinion based solely to the audit performed by us.

We performed the audit in compliance with the requirements of the International Auditors' Standards. These standards impose the audit to be planned and performed in such a manner, which shall provide us with confidence that the above mentioned herein reports do not contain any essential errors and omissions. We consider that the audit performed by us provides us with sufficient grounds to state an opinion.

In our opinion, the financial statement authentically presents in all the essential aspects the property and financial status of the company as of **31 December 2005** and of the outcomes of its activity as well as the cash flows for the year ended on the above mentioned date in compliance with the **International Financial Reporting Standards**.

23.03.2006

ALPHA AUDIT GROUP LTD /Sgd. Ill./ SEAL of Alpha Audit Group Ltd.
Stoian Donev
Registered auditor /Sgd. Ill./ SEAL of Stoian Donev , Registered Auditor 0509

Translation from Bulgarian

M+S HYDRAULIC JSC, Town of Kazanluk

BALANCE SHEET

As of 31 December 2005

	Note	The year ending on 31 December 2004	The year ending on 31 December 2005
		Thousand EUR	Thousand EUR
Fixed tangible and non-tangible assets	1	6646	11611
Current assets		6	6
Inventory	2	6800	6720
Receivables	3	1823	3554
Monetary funds	4	725	729
		9348	11003
Short-term liabilities (current)			
Current liabilities	5	3457	3777
Short-term loans	6	1693	1705
		5150	5482
Net circulating capital (net current assets)		4199	5521
Long-term liabilities for loans	6	1494	2632
Governmental donations			
		1494	2632
Tax assets		22	29
Tax liabilities		431	136
Net assets		8947	14399
Equity			
Fixed capital	8	133	133
Reserves	9	7233	12580
Profit from current year	20	1581	1686
Total		8947	14399

The attached notes constitute an integral part of the financial report.

This financial report was approved by the Board of Directors on 25.03.2006

Translation from Bulgarian

M+S HYDRAULIC JSC, Town of Kazanluk

PROFIT AND LOSS STATEMENT
For the year ending on 31 December 2005

	Note	The year ending on 31 December 2004	The year ending on 31 December 2005
		Thousand EUR	Thousand EUR
Income from sales	1	23117	27335
Cost price of the sales	1	-16074	-19827
Gross profit		7043	7508
Other income (expenditures)	16	-35	-286
Income from governmental donations		0	0
Administrative expenditures	12	-3542	-3911
Expenditures for sales	13	-961	-976
Profit from the activities		2505	2335
Income from interest rates		1	1
Expenditures for interest rates	14	-223	-231
Value adjustment resulting from exchange rate fluctuations (net)	15	-33	-63
Other financial expenditures / income (net)	17	-82	-96
Profit (prior to taxation)		2168	1946
Expenditures/income for taxes	20	-1017	-260
Net profit	20	1581	1686

The attached notes constitute an integral part of the financial report.

Translation from Bulgarian

M+S HYDRAULIC JSC Town of Kazanluk

CASH FLOW REPORT

For the year ending on 31 December 2005

CASH FLOWS	The year ending on 31 December 2004	The year ending on 31 December 2005
	Thousand EUR	Thousand EUR
A	1	2
<i>A. Cash flows from operating activity</i>		
Proceeds from clients and other debtors	25390	28634
Refunded taxes, insurances and others	-300	-261
Payments of suppliers and other creditors	-16750	-19643
Personnel related payments	-5498	-5972
Taxes paid	-476	-718
Interest rates received	1	1
Other proceeds / payments from operating activity	-237	-291
Net cash flow from operating activity (A):	2130	1750
<i>B. Cash flows from investment activity</i>		
Purchase of fixed assets	-1059	-1395
Proceeds from sale of fixed assets	0	7
Net flow from investment activity: (B)	-1059	-1388
<i>C. Cash flows from financial activity</i>		
Proceeds from loans	389	1500
Loans paid	-445	-1256
Paid interest rates, fees, commissions under loans with investment designation	-28	-16
Dividends paid	-635	-517
Other proceeds / payments from financial activity	-75	-68
Net cash flow from financial activity (Ñ):	-794	-358
<i>D. Changes of the cash during the time period (A+B+C):</i>	-276	4
<i>E. Cash at the beginning of the time period</i>	450	725
Unrealized exchange differences at the end of the time period	-1	-
<i>F. Cash at the end of the time period</i>	725	729

EQUITY CHANGES REPORT
For the year ending on 31 December 2005

(Thousand EUR)

	Fixed capital	Reserves from subsequent revaluations	Legal reserves	Supplementary reserves	Undistributed profit from past years	Current result	Total
Balance on 31 December 2004	133	2185	24	634	5971	1581	8947
Appropriation of the profit:							
Dividends					-533		-533
Financial result for 2005						1686	1686
Subsequent revaluation of fixed assets							0
Revaluation of the written-off fixed assets		4253					4253
Deferred taxes							
Donations				-8			-8
Other		264			-210		54
Balance on 31 December 2005	133	6702	24	626	5228	1686	14399

Translation from Bulgarian

**ANNEX TO THE FINANCIAL STATEMENT
For the year ending on 31 December 2005**

1. Establishment and registration

M+S HYDRAULIC is a joint-stock company registered in Stara Zagora Regional Court under Company File No 941 of 1996. The Company is with headquarters in the town of Kazanluk. It is public and its shares are traded on the Bulgarian Stock Exchange. Key shareholders are two holding companies and a joint-stock company, which privatized this company in 1997. The state has a minimal participation. The company is with a one-tier system of management.

The activity of the company includes production, repair and trade of hydraulic articles and systems.

This financial statement was approved by the Board of Directors on 25.03.2006.

2. Accountancy policy

2.1. Basis for development

The Company keeps its current accountancy and prepares its financial statements in compliance with the requirements of the Accountancy Act and the International Financial Reporting Standards (IFRS) for year 2002 adopted by the Board of International Accounting Standards and the interpretations issued by the Standing Committee for Clarifications with the same Board applicable as they are approved for applying on the country territory from the government. The present financial report is not complied with all International Financial Reporting Standards (IFRS) valid from 31.12.2005.

All the data were presented in this financial statement in thousand EUR.

2.2. Amendments in the accountancy policies

The Company has not changed its accountancy policy.

This annual financial statement was developed with observation of the fair value principle.

2.3. Use of approximate accounting evaluations and assumptions

The development of the financial statement in conformity with IFRS requires from the management to make some approximate accounting evaluations and assumptions, which refer to the reported balance assets and liabilities, the announced conditional assets and liabilities as well as to the acknowledged expenditures and income for the time period. The real results could differ from the approximate accounting evaluations.

2.4. Management of the financial risks

Factors of the financial risks

The activity of the Company is exposed to financial risks, including the effects from the change of the exchange rate of the American Dollar, the interest rates under the trade and bank credits, the credit periods of payment on the part of the clients.

2.4.1. Risk of exchange differences

The Company is exposed to a risk of exchange differences owing to the fact that it has liabilities pursuant to the Act to Settle Non-Performing Loans in US Dollars as well as under trade credits received in US Dollars.

2.4.2. Interest rates under trade and bank credits

The company uses bank and trade credits for its current activity. The bank credits are secured by pledges of fixed tangible assets. The annual interest rate under the bank credits varies within the framework of 5% and 8%.

2.4.3. Credit risks

The Company grants credit periods to some of its bigger clients from 30 to 90 days. It secures its receivables through non-performance of new declared orders or through preliminary advance or full pre-payment. But on the other hand the Company uses credit period within the framework of 45 to 90 days provided to it by its suppliers of materials, assemblage in complete sets, cooperated and transport services.

2.4.4. Liquidity

The management maintains free cash available stocks aimed at the provision of a permanent possibility for satisfying its liabilities.

2.5. Definition and evaluation of the elements of the accounting balance sheet

2.5.1. Fixed tangible assets

As of the date of the transition 31 December 2005, the Company revaluated the fixed tangible assets in conformity with the fair value in compliance with the requirements of the IFRS.

The fixed tangible assets acquired prior to or after 31.12.2001 and available as of 31.12.2005 were presented in conformity with the fair value.

2.5.2. Fixed non-tangible assets

The fixed non-tangible assets were reported at a price of acquisition reduced by the accumulated depreciation.

2.5.3. Inventory

The inventory was evaluated with regard to its price for acquisition, which includes the purchase price plus paid duties, transport expenditures and other expenditures. The weighted average cost (prime cost) method is applied pertaining to their derecognition (consumption). The incomplete production was evaluated in conformity with the value of the key production costs. At the end of the year the inventory was reported in conformity with its reporting value, since it is the lower than their net realizable value.

2.5.4. Receivables

The receivables in EUR were evaluated with regard to the value of their arising, and those in foreign currency revaluated in conformity with the final exchange rate of the Bulgarian National Bank and the difference ensuing from the revaluation was reported as current income or expenditure in the profit and loss statement.

2.5.5. Cash

The cash in EUR is evaluated in conformity with its face value and the cash in foreign currency was revaluated in conformity with the final exchange rate of the Bulgarian National Bank and all the differences from the revaluation were rendered an account of as current income or expenditure in the profit and loss statement. The available cash in conformity with a bank account for guarantees before customs houses in relation to the import of materials was presented as being blocked.

2.5.6. Fixed capital

The fixed capital was presented in conformity with its face value and corresponds to its current court registration. The capital was fully deposited. Main shareholders are Stara Planina Holding JSC with 30.91%, M+S – 97 JSC with 24.10% and Industrial Capital Holding JSC with 22.37%.

2.5.7. Reserves

A revaluation reserve formed by the revaluations made to the fair value of fixed tangible assets is included in the group of the reserves. The revaluation reserve is acknowledged an undistributed profit after the release of the relevant asset from the Tax Depreciation Plan (when it is 100% worn out or was written-off on another occasion).

2.5.8. Liabilities

The liabilities in EUR were evaluated in conformity with the value of their origin and those in foreign currency - in conformity with the final exchange rate of the Bulgarian National Bank as of 31.12.2005.

2.6. Recognition of income and expenditures

The income from sales and the expenditures for the activity are accrued at the moment of their origin regardless of the monetary proceeds and payments. The reporting and the recognition of the income and expenditures are performed with the observation of the principle of compatibility. The income and expenditures in foreign currency are reported in conformity with the central exchange rate of the Bulgarian National Bank as of the date of their accrual.

2.7. Functioning enterprise

The accounting statement was developed on the basis of the principle of a functioning enterprise.