



IPO PROSPECTUS

REGISTRATION INSTRUMENT OF INDUSTRIAL HOLDING BULGARIA PLC

TYPE OF SECURITIES OFFERED:

DEMATERIALIZED, ORDINARY, REGISTERED,
FREELY TRANSFERABLE SHARES

NUMBER OF SECURITIES OFFERED:

17 502 693

This Registration Instrument contains the complete information about the Issuer of the securities required for investment decision purposes, including the major risks related to the Issuer and its operations.

It is in the investors' interest to get acquainted with this Registration Instrument and the Document of the Offered Securities before they make an investment decision.

The Financial Supervision Commission has confirmed this Registration Instrument and is not responsible for the truthfulness of the information presented herein.

This Registration Instrument, the Document of the Offered Securities and the Summary shall form IPO Prospectus.

The members of the Management Board of Industrial Holding Bulgaria Plc are jointly liable for any damages caused by untruthful, misleading or incomplete data in the Registration Instrument or any part of the information presented therein.

The persons, who have prepared the financial statements of the Issuer, are jointly liable with the persons specified in the preceding paragraph for any damages caused by untruthful, misleading or incomplete data in the financial statements, and the registered auditor – for any damages caused by financial statements audited by the auditor.

15 September 2007



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<p>Investors, interested in the securities offered, may get acquainted with the original of and obtain a free-of-charge copy of or additional information about this Registration Instrument at the offices of:</p>	
<p>THE ISSUER:</p>  <p>INDUSTRIAL HOLDING BULGARIA</p>	<p>Industrial Holding Bulgaria PLC Address: 47 Vasil Levski Boulevard, 1000 Sofia Telephone: +359 2 980 71 01 Fax: +359 2 980 70 72 E-mail: ir@bulgariaholding.com Web: www.bulgariaholding.com Contact person: Ms. Bogomila Ivanova Hristova Investor Relations Director 10.00 h – 16.00 h</p>
<p>THE AUTHORIZED INVESTMENT INTERMEDIARY:</p>  <p>FFBH</p>	<p>First Financial Brokerage House OOD Address: Floors 4 & 5, 2 Enos Street 1408 Sofia Telephone: +359 2 810 64 00 Fax: +359 2 810 64 01 E-mail: office@ffbh.bg Web: www.ffbh.bg Contact persons: Ms. Elena Nencheva Dimitrova Mr. Svetozar Abrashev 8.45 h – 17.45 h</p>

This Registration Instrument may be found at www.bulgariaholding.com – the website of Industrial Holding Bulgaria AD and at www.ffbh.bg – the website of First Financial Brokerage House OOD.

Industrial Holding Bulgaria AD and the authorized investment intermediary First Financial Brokerage House OOD hereby inform potential investors that investments in the offered securities bear certain risks.

The risk factors specific to the operations of the Issuer are stated in detail in *Item 4. Risk factors* on pages 9-17 of this Registration Instrument.



1 MANAGEMENT AND CONTROL BODIES, PROCURATORS, CONSULTANTS AND AUDITORS

1.1 MEMBERS OF THE MANAGEMENT AND CONTROL BODIES

The Company has a two-tier management system, including Supervisory Board and Management Board whose members are as follows:

Members of IHB Plc Supervisory Board:

DZH AD, represented by Ms. Elena Petkova Kircheva – President of the Supervisory Board

Mr. Konstantin Kouzmov Zografov – Vice President of the Supervisory Board

Ms. Snezhana Ilieva Hristova – Member of the Supervisory Board

Members of IHB Plc Management Board:

Mr. Bozhidar Danev – President of the Management Board

Ms. Daneta Angelova Zheleva – Executive Director

Mr. Angel Stoyanov Katsarov – Executive Director

Mr. Borislav Emilov Gavrilov – member of the Management Board

Mr. Boyko Nikolov Noev – Member of the Management Board

As at date of preparation of this Registration Instrument IHB Plc has no procurator or other business manager.

1.2 BANKS, INVESTMENT INTERMEDIARIES AND LEGAL ADVISORS

- Key banks with which IHB Plc has had lasting relations for the last 3 years:

Commercial Bank Allianz Bulgaria AD

Seat: Sofia

Address of management: 79 Maria Luisa Boulevard

Raiffeisenbank (Bulgaria) EAD

Seat: Sofia

Address of management: 18-20 N. V. Gogol Street

DSK Bank EAD

Seat: Sofia

Address of management: 19 Moskovska Street

United Bulgarian Bank AD

Seat: Sofia

Address of management: 5 Sveta Sofia Street

UniCredit Bulbank AD

Seat: Sofia

Address of management: 7 Sveta Nedelya Square



- Key investment intermediaries with which IHB Plc has had lasting relations for the last 3 years:

Commercial Bank Allianz Bulgaria AD

Seat: Sofia
Address of management: 79 Maria Louisa Boulevard

Investment Intermediary Aval In AD

Seat: Sofia
Address of management: 1 Slaveykov Square

Investment intermediary servicing the issue:

First Financial Brokerage House OOD

Seat: Sofia
Address of management: Floors 4 and 5, 2 Enos Street

Investment intermediary authorized to issue certificates of rights to shareholders who have obtained rights to own accounts:

Commercial Bank Allianz Bulgaria AD

Seat: Sofia
Address of management: 79 Maria Louisa Boulevard

- Key legal advisors with which IHB Plc has had lasting relations for the last 3 years

Lawyer's Office Antoaneta Dimolarova, Rozalina Gradinarova & Partners

Seat: Sofia
Address of management: 16 Ouzoundzhovska Street

Eurolex OOD

Seat: Sofia
Address of management: 16 11th August Street

Legal advisor servicing the issue:

Dimitrov, Chompalov and Todorova OOD

Seat: Sofia
Address of management: 22-24 Mayor Parvan Toshev Street

1.3 AUDITORS

Issuer's auditor over the last 3 years:

KPMG Bulgaria

Seat: Sofia
Address of management: 37 Fridtjof Nansen Boulevard



2 PERSONS RESPONSIBLE FOR THE PREPARATION OF THE REGISTRATION INSTRUMENT

The following persons are responsible for the information used upon preparation of this Registration Instrument: Bogomila Ivanova Hristova – Investor Relations Director of IHB Plc, Neli Georgieva Kercheva – Head of Financial Analysis and Investment Projects Unit of IHB Plc, Toshka Zlateva Vasileva – Chief Accountant and Elena Nencheva Dimitrova – Financial Analyzer at First Financial Brokerage House OOD.

By signature of the last page of this Registration Instrument the aforementioned persons declare that:

(1) They have applied due care in the preparation of this Registration Instrument to ensure its compliance with the applicable legal provisions;

(2) To the best of their knowledge the information contained in this Registration Instrument corresponds to actual facts and circumstances, is not misleading, contains no incomplete data that may affect its significance and truly presents all material aspects of the economic, financial and legal positions of IHB PLC and its economic group companies in general, as well as the share rights.

By signature of the Declarations in compliance with Article 81, Paragraph 5 in relation to Article 81, Paragraph 3 of the Law on Public Offering of Securities (*Appendix to the Prospectus*),

The members of IHB Plc Management Board:

- Bozhidar Vasilev Danev – President of the Management Board
- Angel Stoyanov Katsarov – Executive Director
- Boyko Nikolov Noev – Member of the Management Board
- Borislav Emilov Gavrilov – Member of the Management Board
- Daneta Angelova Zheleva – Executive Director

The preparer of IHB Plc annual financial statements for the last three years:

Toshka Vasileva Zlateva – Chief Accountant,

The auditor who has certified IHB Plc annual financial statements for the period 2004-2006:

Dobrina Dimitrova Kaloyanova, registered auditor No 293, in the capacity of Auditor at KPMG Bulgaria, legal seat and address of management: 37 Fridtjof Nansen Street, Sofia, who has certified IHB Plc annual financial statements for 2004, 2005 and 2006,

Hereby declare that to the best of their knowledge the information presented in the Prospectus, consisting of this Registration Instrument, the Document of the Offered Securities and the Summary, is true and complete.



3 SUMMARIZED FINANCIAL INFORMATION

Basic indicators of IHB Plc over the last three years and the first halves of 2006 and 2007:

The information is presented on consolidated basis

Indicator	2004	2005	2006	June 2006*	June 2007*
Operating income, in thousands of BGN	48 117	70 097	132 404	53 991	51 989
Total sales income, in thousands of BGN	49 531	92 130	135 088	54 840	52 985
Operating profit/loss, in thousands of BGN	6 368	27 296	8 186	6 911	7 188
Net operating profit/loss, in thousands of BGN ⁽¹⁾	7 662	29 898	9 647	4 806	6 015
Total amount, in thousands of BGN	77 991	155 766	174 918	168 595	205 333
Net assets, in thousands of BGN ⁽¹⁾	47 317	82 059	92 655	87 538	98 607
Share capital, in thousands of BGN	21 003	21 003	21 003	21 003	21 003
Number of shares	21 003 235	21 003 235	21 003 235	21 003 235	21 003 235
Dividend per share (in BGN)	0	0	0		
Weighted average number of shares	21 003 235	21 003 235	21 003 235	21 003 235	21 003 235
Net profit per share (in BGN)	0.36	1.42	0.46	0.46 ⁽³⁾	0.58 ⁽³⁾
Weighted average number of shares of diluted value	23 621 445	26 254 040	26 254 040	26 254 040	26 254 040
Earnings per share of diluted value (in BGN) ⁽²⁾	0.33	1.15	0.38	0.38 ⁽³⁾	0.47 ⁽³⁾

* The data are preliminary and unaudited.

(1) The net profit and net assets data do not include minority interests.

(2) On 2 July 2004 IHB Plc issued 5 250 805 convertible bonds with characteristics as specified on page 112. The calculation of earnings per share of diluted value over the years has been made through adjustment of the weighted average number of ordinary shares in circulation by the projected result from the conversion based on the assumption that the General Meeting of Shareholders of the Holding will adopt a decision on conversion of all convertible bonds into ordinary shares and all bondholders will take shares for their bonds. In this case the calculation of the earnings per share of diluted value is based on the net profit to be distributed among the holders of ordinary shares plus the result after taxation from the convertible bonds interest and the weighted average number of ordinary shares in circulation during the period, which is increased by the weighted average number of additional ordinary shares that would be in circulation upon conversion of all potential ordinary shares of diluted value. As at the date of preparation of this Registration Instrument Sofia City Court has registered increase in the capital of IHB Plc as a result from the conversion of convertible bonds from BGN 21 003 235 to BGN 26 254 040.

(3) As at 30 June 2006 and 30 June 2007 the profit is readjusted on annual basis (divided by 181 days and multiplied by 365 days).



4 RISK FACTORS

The risks influencing investments in the Holding's securities can be split into two groups: systematic risks and non-systematic risks.

Systematic risks influence all economic agents and are derivative of the factors of the environment in which they operate. To the extent these risks are typical not only for investments in the company's securities or other issuers' securities, but also in investing in alternative directions, the rational investor does not have effective instruments as to eliminating them, but only as to their reduction.

Non-systematic risks are risks specific to the particular economic entity and the sector where it operates. These risks form part of the overall investment risk and can be managed.

SYSTEMATIC RISKS

The systematic risks may be split into the following elements:

➤ *Political risk*

Since 1989 Bulgaria applies a political and structural reforms program aimed at the creation of free market economy through privatization of state-owned enterprises and restriction of economy regulation by the State.

The present Government was elected by the National Assembly on 16 August 2005. Finally established two months after election date, the Governing Coalition is among the most fragmentary ones in modern history. Prime Minister is Sergey Stanishev, the Leader of the Bulgarian Socialist Party (BSP). BSP is the Leading Participant in the Governing Coalition and exercises control over eight out of the total number of seventeen ministries, and the other partners are the former governing Simeon II National Movement Party and the Movement for Rights and Freedoms.

Bulgaria was invited to join NATO on 22 November 2002 at the Organization Conference in Prague. On 18 March 2004 the National Assembly of the Republic of Bulgaria ratified the North Atlantic Treaty and the country was officially announced Member of NATO on 29 March 2004.

Bulgaria became a member of the European Union (EU) in 2007. The Final Monitoring Report on Bulgaria by the European Commission was published on 26 September 2006, including recommendation on accession, and on 17 October 2006 the Council of Europe officially approved Bulgaria's accession to EU on 1 January 2007. Still, the European Commission is monitoring the manner in which Bulgaria fulfils its obligations and commitments in relation to reforms realization through introduction of an expanded monitoring system for supervision and whether it observes the terms and conditions of the Accession Treaty. If the supervision proves that Bulgaria does not comply with the EU requirements on transparency of public funds disbursement, fighting against corruption, efficiency and independence of the judicial system and food safety, there exists a material risk related to late application of a precaution in the sphere of domestic market, internal affairs and judicial system and some of the EU Funds subsidies and transfers may be reduced or cancelled.

Bulgaria's accession to EU has legitimated the economic reforms made to ensure integration of the country with the Community. Nevertheless, the future economic growth will remain dependent on the political will for realization of economic reforms and introduction of the EU best market practices. The ability of the Government to realize the reforms depends on the extent to which its members can continue cooperating in the process of current reform popularization. It is not certain, however, whether a change in the administration will not result in



a significant and abrupt change in the political and economic environment in the country, which may have a material negative impact on the activity, operating results and financial position of the Company.

The present political system in Bulgaria is vulnerable to economic problems, dissatisfaction with the reform and EU membership due to unrealistic expectations, as well as social instability and changes in the government policy, organized crime and corruption, any of which may have a material negative impact on the activity, operating results and financial position of the Company. The next National Assembly is planned to be elected in 2009.

➤ ***Currency risk and Currency Board***

Since 1997 Bulgaria applies the currency board system, on which basis the Bulgarian lev has been initially tied to the German mark and to the euro following the Eurozone creation. The maintenance of a currency board system is considered an exclusively essential element of the economic reform in Bulgaria, requiring permanent political support as to the non-inflation policy applied. It is possible that the strict currency board regulations, which exclude exchange rate devaluation (depreciation) and independent monetary policy, do not meet the future needs of the Bulgarian economy. Nevertheless, the currency board system is expected to be preserved till accession of the country to the Eurozone but there is no certainty whether this will happen.

Each significant BGN devaluation may have a material unfavourable effect on the economic entities in the country, including the Issuer.

Risk also exists when the income and expenditures of an economic entity are formed in different currencies. The exposure of companies operating on the territory of Bulgaria to the US dollar, which is the basic currency used on most world raw materials and production markets.

➤ ***Inflation risk***

The risk of inflation rate rise is related to reduction of the actual purchase capacity of economic entities and the possible depreciation of assets denominated in domestic currency.

The currency board system effective in Bulgaria controls monetary offering and imposes severe restrictions on the use of monetary policy instruments for macroeconomic influence. The BGN fixing to the euro, however, has created the possibility for inflation import through increase in the prices of raw materials.

Bulgaria's accession to EU and the relatively high rate of Bulgarian economy growth have resulted in additional material pressure on the approximation of price rates to the rates of the other EU countries – since the beginning of 2007 till the end of August 2007 the inflation rate in Bulgaria reached 7.5% compared to 6.5% for the whole preceding year. In short-term aspect, such inflation growth would have unfavourable effect on the economic operations in the country. In long-term aspect, this risk is alleviated in consideration of the application of Bulgaria for accession to the European Monetary Union, which is related to compliance with all requirements of ERM II /Exchange Rate Mechanism/.

*Inflation /consumer price index/*

Year	1999	2000	2001	2002	2003	2004	2005	2006
Rate in %	6.20	11.40	4.80	3.80	5.60	4.00	6.50	6.50

Source: National Statistical Institute

Average annual inflation

Year	1999	2000	2001	2002	2003	2004	2005	2006
Rate in %	2.60	10.30	7.40	5.80	2.30	6.10	5.00	7.30

Source: National Statistical Institute

➤ **Credit risk**

The international rating agencies assess positively the rate of economic growth, the structural reforms in Bulgaria's economy, the progress of privatization processes which led to national debt reduction to 25.6% of GDP in 2006, while simultaneously with the favourable assessments the latter indicate that the significant Bulgarian current account deficit of 16% of GDP in 2006, together with the large external debt, makes the economy more vulnerable to unfavourable disturbance. The probable instability rate is low and in case of such disturbance the Government and the banking system seem sufficiently stable to oppose a potential crisis.

As at date of preparation of this Registration Instrument Bulgaria's rating given by the credit rating agencies, Standard&Poor's, Fitch Ratings, the Japanese Credit Rating Agency /JCRA/ and Moody's Investors Service, is of 100% investment class.

The targeted state policy of debt management over the recent years reduced Bulgaria's potential credit risk. The key strategic elements of the policy are:

- Strict follow-up of debt amount;
- Maintenance of debt servicing costs at low level in medium and long-term aspects in the conditions of an acceptable risk rate;
- Provision of sustainable sources for budget financing and debt refinancing;
- Maintenance of close coordination and mutual informing between MF and BNB.

➤ **Risks related to legal system functioning**

The Bulgarian legal system has been undergoing changes resulting from the market economy development. The judicial and administrative practices still raise certain problems and the persons relying on the Bulgarian courts as to settlement of disputes on ownership, violation of legal provisions, breach of contracts and others find it difficult to obtain such. Though the greater part of the Bulgarian laws has been already harmonized with the EU legislation, the Bulgarian legislation is still developing in a manner not always complying with the development and implementation of the EU legislation and market trends. As a result, there are certain ambiguities, inconsistency and investment risk which would not have been so material if investing in a company established in a jurisdiction with more developed legal system. Nevertheless, in the last several years the Bulgarian commercial legislation became relatively modern, detailed and complete. The introduction of new regulatory provisions in spheres such as company law and securities and of amendments and supplements to the effective laws with a view to better approximation of the Bulgarian legislation with the EU laws and regulations is expected to result in more consistent development of the Bulgarian civil and commercial legislation.

In consideration of the aforementioned, the following two basic risks related to the Bulgarian legal system development may be outlined: (a) the potential failure in the efforts for permanent compliance of the Bulgarian



legislation with the EU legislation and rapidly developing business relations may result in even more gaps in the legal security and (b) the legal infrastructure gaps may cause uncertainty in relation to undertaking of corporate actions, exercising of supervision and other issues which are not doubtful in other countries in general.

NON-SYSTEMATIC RISKS

NON-SYSTEMATIC RISKS OF IHB PLC

➤ ***Risks related to IHB Plc holding structure***

To the extent that IHB Plc activity is related to management of assets of other companies, such activity may not be assigned to a particular sector of the national economy and is exposed to the sector risks of subsidiaries as specified below. Moreover, the effect of individual risks is proportional to the share in the particular sector in the long-term investment portfolio of the Holding.

➤ ***Risks related to strategy adoption by IHB Plc Management***

The future profits and economic operations of the Issuer depend on the strategy adopted by IHB Plc Management and subsidiaries. The adoption of an improper market strategy may result in losses and benefits foregone. IHB Plc aims at strategic risk management through continuing follow-up of the implementation of its strategy and results so as to react most efficiently if it is to be adjusted. Improper or delayed strategy adjustment may have a negative impact on the Group's activities, operating results and financial position.

➤ ***Risks related to IHB Plc portfolio structure***

IHB Plc investments in sectors characterized by a low return rate and slow return on invested funds /machine building, shipbuilding/ reduce the rate of return on the portfolio as a whole.

➤ ***Risks related to the vertical integration of IHB Plc portfolio companies***

The existence of portfolio companies, forming their net sales income also from products sold to other subsidiaries, subject the efficiency of their operations to direct dependence on the income rate of customers – related parties, and this may have a negative impact on the Group's profitability.

➤ ***Risks related to the legal framework regulating environmental protection***

The effective Bulgarian legislation regulating ecological issues envisages undertaking of a number of measures for prevention, control and reduction of the rate of various environmental pollutions. IHB Plc applies a policy aimed at performance of all applicable legal obligations, and this is related to putting and maintenance of the facilities and processes in compliance with the effective standards. Should the Holding be found guilty as to caused ecological damages regardless of the actions undertaken, the Holding should pay relevant compensations and penalties, which may affect its operating results and financial position.



➤ ***Risks related to the need of financing of planned investments***

A significant portion of the investments planned by the Issuer is envisaged to be financed by own funds. Should unfavourable economic conditions or other unfavourable events occur, it may become necessary that external sources be preferentially used for financing. It is not certain, however, whether external financing may be provided under acceptable terms and conditions. As a result, it may become necessary that IHB Plc planned investment costs be reduced, which may have a negative impact on the operating results and financial position of the Issuer.

➤ ***Risks related to the prices of energy sources***

The operations of the Holding's companies depend on the market prices of fuels and power, which represent subject of international demand and supply and are predetermined by factors beyond their scopes of control. This dependence will become even stronger with the commencement of maritime transport operations.

➤ ***Risks related to employment and keeping of qualified personnel***

In consideration of the low standards of the educational system and demographic collapse in Bulgaria, a number of national economy sectors suffer insufficiency of qualified personnel. As a result, the competition among employers is high. IHB Plc success is partially due to its capability to employ, train, keep and motivate qualified personnel.

NON-SYSTEMATIC RISKS OF THE SUBSIDIARIES

The sector diversification of IHB Plc portfolio includes a number of sectors having specific risk characteristics, the more important of which are listed below:

MARITIME BUSINESS

Shipbuilding and ship repair

- *Demand life cycle* – as the products manufactured by the sector have long operation term, their purchase may be deferred in time in case of unfavourable economic conditions, which makes the sector profitability dependent on economy life cycle. The trend for shifting of the cargoes from land to water has a positive impact;
- *Sector structure* – the significant production excess capacity in the shipbuilding sector on global scale makes the sector strongly dependent on lack of materials and equipment deliveries;
- *Raw materials market structure* – in most cases the raw materials for building of a ship at Bulyard Shipbuilding Industry EAD are supplied by a number of suppliers, which makes the process management difficult, especially with a view to synchronization and timeliness of supplies;
- *Insufficiency of qualified personnel* – in a period of sector upsurge, the Company faces the risk of failure in employment of a sufficient number of specialists (welders, hull and pipe experts and qualified management and research and technological development personnel in particular) as most of these experts are freely convertible on international level. The companies operating within the sector compete through offering attractive remunerations; at present Bulyard Shipbuilding Industry EAD hires employees from Ukraine and Romania;
- *Lack of protection policy by the State to the sector* – the State does not use tools to protect the sector through subsidies, tax relieves, etc.;



- *Level of dependence on atmospheric conditions* – most production processes run in the open air, which predetermines their high level of dependence on climate conditions such as temperature, rain, snow, humidity, wind and storms;
- *Level of dependence on regulations and standards* – the requirements of classification organizations and the conventional rules and regulations on human life protection under maritime conditions, prevention of terrorist acts and environmental protection are becoming higher. This imposes project revision and installed systems and equipment costs rising;
- *Technological risk* – it is determined by the resource consuming capacity of used technologies. The slow deployment of new technologies increases its influence;
- *Credit risk* – it results from the need of ensuring credit lines for issuance of recoverable bank guarantees for shipbuilding, turnover financing and investment purposes. Credit line security imposes weights on the company property and complicates the servicing of cash flows. The effect of this risk is increased by the lack of traditions in shipbuilding financing by the Bulgarian banks;
- *Currency risk* – it is related to the negotiation of ship prices in a particular currency and those of raw materials in other currency.

Port operations

- *Scope of offered services* – the scope of services offered by the two ports within the Holding's Group is comparatively limited, and this fact places them in unfavourable positions as compared to their competitors carrying out better developed activities;
- *Demand life cycle* – the cargo circulation influences the international commodity market and the overall economic environment;
- *Sector structure* – the port services in the Black Sea Region mark high competition rate – there are 5 ports;
- *Lack of protection policy by the State to the sector* – the State does not use tools to protect the sector through subsidies, tax relieves, etc.;
- *Technological risk* – the intensive exploitation of basic resources is accompanied by high repair and maintenance costs.

Classification and certification

- *Sector structure and market divisions; competition* – Bulgarian Register of Shipping AD operates in a highly competitive environment, part of which are reputable and leading international registers, such as Lloyd's Register of Shipping, Bureau Veritas, Germanischer Lloyd, etc., not only on the Bulgarian market but on the world market as well. There is a trend for an increase in the number of worldwide classification organizations, which requires that Bulgarian Register of Shipping AD expand its operations abroad and charge flexible tariffs. At present Bulgarian Register of Shipping AD is the only national classification organization. The procedure for privatization of Maritime Navigation Bulgare EAD, the largest ship owner in Bulgaria, gives rise to certain issues concerning the future development of the company;
- *Regulatory framework* – it depends on institutional and legal factors related to national and international laws development in the field of shipping and the EU membership of the country. The new requirements on the fight against terrorism, navigation safety and security and ecology also have a material impact. The requirements in this field are defined by the International Maritime Organization /IMO/ in the capacity of UNO body, whose member the Republic of Bulgaria is. The Imo requirements are binding and serve as base for preparation of national regulations, internal rules and technology of registers functioning. At present this regulatory framework is in an intensive process of revision with a view to ensuring its compliance with the objective requirements on the fighting against terrorism and environmental



protection. The binding nature of the documents and set terms for provision of compliance with them are decisive for the activity of each register in general, as well as for its competitiveness.

- *Innovation activity level* – the constantly rising of standards concerning vessels and the necessity of used technology modernization in compliance with the IMO requirements require high investment activity from the companies operating in this sector. The successful application of the technology for ship inspection and class certification requires the use of the latest measurement and defect detection equipment;
- *Technological risk* – it is related to the age of supervised ships. The EU membership of Bulgaria is expected to impose restrictions on the age of ships supervised by the Bulgarian Register of Shipping;
- *Liquidity risk* – it may arise in case of delayed payments by ship owners or other registers, with which bilateral agreements for mutual recognition have been signed;
- *Currency risk* – the change in market directions influences the income from sales through exchange rates.

MACHINE BUILDING

- *Demand life cycle* – the products represent investment goods and their demand is resultant from the overall investment activity;
- *Product life cycle* – the products manufactured by the sector are in the “mature” stage of their life cycle. This limits the possibility to use the profitability rate as a mechanism to improve the financial position of the companies within the sector and is reflected by increased marketing costs and costs related to services supplementing the product;
- *Raw materials market structure* – the main portion of used raw materials (chiefly metals) is imported from countries outside EU (Russia, Ukraine), which is related to certain problems of regulatory nature due to the existing import and export quotas. Another problem is the regular supply of scrap due to lack of established channel suppliers. The companies manage this risk through raw material replacement by raw cast iron upon scrap shortage;
- *Energy market* – power is the basic resource for machine building companies and this fact makes the sector profitability strongly dependent on the prices of energy sources, which have been rising. The planned energy market liberalization is an additional factor bringing uncertainty for economic entities;
- *Insufficiency of qualified personnel* – the educational system in the country does not meet the needs of specialists and engineers of the companies operating in this sector. This may have a negative effect on the overall future development of the sector, on products quality and innovative activity at the companies in particular. In this connection, the Issuer has adopted a long-term method of human resources management related to preliminary and subsequent qualifications of the personnel and close cooperation with the academic society in the country;
- *Lack of protection policy by the State to the sector* – the State does not use tools to protect the sector through subsidies, tax relieves, restrictions in the import quotas, etc.;
- *Innovation activity level* – the sector is characterized with a very low level of innovation activity and low frequency of new product generation, which limits its strategic development potential;
- *Production risk* – the long production cycle and the slow rate of return on investments require higher amount of working capital, secured mainly through borrowed funds. The lack of flow and predictable repetition rate of supplies determines the impossibility to set aside materials and cooperated supplies ensuring the rhythm of production;
- *Technological risk* – it is determined by the resource consuming technologies used. The slow rate of equipment modernization and introduction of new technologies significantly increases its influence;
- *Liquidity risk* – the significant amount of fixed payments of some of the companies creates financial difficulties in the servicing of their current payables;
- *Currency risk* – it emerges from the lack of FX balance between revenues from export markets in USD exposures and the prevailing supplies of imported materials and labour in EUR.



FURNITURE PRODUCTION

- *Demand life cycle* – the demand for products manufactured by Augusta Mebel AD is predetermined by macroeconomic environment factors such as purchase capacity of the population (home furniture) and investment activity of particular business sectors (hotel and office equipment);
- *Product life cycle* – the life cycle of basic products is not long as modern furniture design and fashion trends are quickly changing. Regarding individual orders, to which hotel equipment belongs, the life cycle is quite shorter. The life cycle depends on the demand on the particular market: the furniture intended for the European market has a maximum average life per model of one year, while the furniture intended for the east markets usually has longer lives but these countries impose high protection duties;
- *Lack of protection policy by the State to the sector* – the State does not use tools to protect the sector. Meanwhile, the European furniture industry in the last year is characterized by an increased foreign trade deficit. The import of Chinese furniture has marked a significant increase due to low prices;
- *Production risk* – most foreign customers are wholesalers and large catalogue trading companies selling on markets characterized with various preferences. The contracts are short-term and sometimes for particular sites and seasons. The lack of long-term contracts interrupts the production process and imposes annual search of new partners, reorganization and restructuring of the operations and production items. The production of large quantities of samples or individual orders results in high production costs, which reduces the return rate;
- *Technological risk* – it is determined by the available machinery stock and the resource consuming technologies. The slow rate of equipment modernization and introduction of new technologies significantly increases its influence;
- *Liquidity risk* – the amount of fixed payments in relation to working capital financing for operational purposes, the production process interruptions and the constant rise in the prices of wood and other basic materials result in the formation of non-rhythmical cash flows and hampers the company liabilities settlement;
- *Currency risk* – the change in market directions influences the income from sales through exchange rates.

RIVER CRUISES

- *Competition* – the European navigable river tourist /passenger/ market is dynamic, well developed and highly competitive;
- *Nature of demand* – the demand in the sector is seasonal, which has adverse effect on the operating income. The tourist season lasts from April till October (inclusive) and is conditionally split into three periods – pre-season, active season and after-season;
- *Force majeure risk, including:*
 - *Climate risk* – it is determined by the strong dependence of the sector profitability on the level of navigability of the rivers and other natural conditions. There are certain differences in navigation along the Danube River and the Rhein-Main Canal. The most significant climate risks related to navigation along the Danube River are the high and low water levels and the strong wind. They may temporarily cease the navigation of vessels along the river. The Rhein-Main Canal is not so strongly depending on the water level of the Danube River but it may be affected by partial freezing during a very cold winter. Other impediments that may arise in navigation along the Rhein-Main Canal include the low bridges and the canal width. The cruiser schedules and preliminary planning are also affected by the necessary repairs of the Moselle and Rhein-Main Canal locks. Repair periods are announced in advance – not later than 10-15 days prior to starting date;
 - *Other risks* – enemy political circumstances, civil or political turmoil, government or official regulations /for example: interdiction on navigation within particular river sections/ and any other events beyond the company's scope of control;
- *Dependence of demand on psychological factors* – the existing fashion in tourist destinations reduces the long-term strategic profitability and may lead to partial redirection to another market segment;



- *Risk of terrorist acts* – the internationally increasing terrorist activity may have strong impact on the rate of demand, and hence on the profitability of operations of the companies in the sector;
- *Liquidity risk* – not expressed in consideration of the charter form chosen by the company. There is a risk when force majeure circumstances occur or the chosen charterer suffers financial losses.

The non-systematic risks of the subsidiaries are reduced through active management and diversification of the Holding's investment portfolio, as well as use of highly qualified specialists in making management decisions on strategic level and increased control at the level of implementation of adopted plans and development strategies.



5 INFORMATION ABOUT THE ISSUER

5.1 BACKGROUND AND DEVELOPMENT DATA

➤ ***IHB Plc name and information about change in the name***

Name: Industrial Holding Bulgaria Plc, hereunder referred to as IHB Plc or the Company or the Holding or the Issuer.

Information about changes in the name of the Company: The Company was established as Privatization Fund Bulgaria Plc. By virtue of Decision No 5 of 13 March 1998 of Sofia City Court the Company was renamed to Industrial Holding Bulgaria PLC.

➤ ***Number and batch of entry into the Commercial Register, BULSTAT code and tax number***

Court, number and batch of entry into the Commercial Register: entered into the Commercial Register of Sofia City Court under batch No 11, volume 1, register I A, page 62, company file No 13081/1996.

BULSTAT code: No 121631219 - Series IO

NTR number: 1221112349

The court registration was promulgated in the State Gazette, Issue No 100 of 1996.

➤ ***Date of establishment and term of existence***

The Company was established on 26 September 1996. The Company was established for an unlimited period of time.

➤ ***Country where the Issuer was established, seat and address of management, telephone (fax), e-mail and website***

IHB Plc is a public limited company established and operating in compliance with the legislation applicable in the Republic of Bulgaria.

Country:	Bulgaria
Seat:	Krasno Selo Metropolitan Region 1606 Sofia
Address of management:	42 Damyas Gruev Street
Seats of branches:	The Company has no registered branches.
Office address:	47 Vasil Levski Boulevard, 1000 Sofia
Contact telephone/fax:	Tel: (+359 2) 980 71 01, 981 55 06, fax: (+359 2) 980 70 72
E-mail:	office@bulgariaholding.com ; ir@bulgariaholding.com
Website:	www.bulgariaholding.com

➤ ***Key events in the development of IHB Plc over the last 3 financial years***

Over the last 3 financial years:

- No transformation of IHB Plc was carried out in accordance with the Law on Commerce;
- No transformation or consolidation of a subsidiary of IHB Plc was carried out in accordance with the Law on Commerce;
- No transfer or pledge of the business of IHB Plc or a subsidiary of IHB Plc was carried out except for the business of Dockyard Port-Bourgas AD, which has been pledged to secure a bank loan /see *Item 8.1. Information about existing or planned significant tangible non-current assets, including leased property and any material encumbrance thereon* on page 74/;
- No acquisition or disposal of assets of material value was carried out outside the ordinary course of business;



- No material changes in the scope of activities of IHB Plc or any of its subsidiaries occurred;
- No statements of claim for initiation of bankruptcy proceedings against IHB Plc or any of its subsidiaries were filed.

As of the beginning of 2006 till the date of preparation of this Registration Instrument no tender offers were made to the shareholders of IHB Plc.

As of the beginning of 2006 till the date of preparation of this Registration Instrument IHB Plc made no tender offers to other companies.

None of IHB Plc Group subsidiaries has made a tender offer except for ZMM Bulgaria Holding AD, which made offers for purchase of the shares of ZMM Nova Zagora AD in 2006 /see *Item. 5.2.1. IHB Plc Group subsidiaries on page 19/* and of ZMM Sliven AD in 2007/see *Item. 5.2.1. IHB Plc Group subsidiaries on page 19/*.

5.2 INVESTMENTS

5.2.1. DESCRIPTION OF IHB PLC MAJOR INVESTMENTS OVER THE LAST THREE FINANCIAL YEARS AND TILL THE DATE OF THIS REGISTRATION INSTRUMENT

➤ *IHB Plc*

The major investments have been made in interests in Bulgarian and foreign companies.

2004

In 2004 IHB Plc did not invest in companies new for the portfolio. The investments were focused on increasing the shareholding in some of the companies.

The largest investment of IHB Plc in 2004 was the increase in the capital of Bulyard AD. The company's capital was increased from BGN 50 thousand to BGN 24 019 thousand, while IHB Plc subscribed 5 992 245 shares in the capital increase at the amount of BGN 5 992 245. The remaining shareholders participated in the company's capital increase with the same amounts, thus the shareholding structure was preserved. With the funds from the capital increase Bulyard AD acquired 75% of the capital of Bulyard Shipbuilding Industry AD, Varna, a company in which the assets of the former Varna Shipyard were contributed in kind. The basic activity of Bulyard Shipbuilding Industry AD is shipbuilding and building of all types of vessels, ship repair and reconstruction, trade in ships and commercial representation.

IHB Plc increased its shareholding in Sano Maritime Holding AD, the company controlling the Bulgarian Register of Shipping. IHB Plc acquired 39%, while at the same time gave an option for sale of 29% thereof.

IHB Plc acquired 250 thousand shares in the capital of ZMM Bulgaria Holding AD, as a result of which the direct shareholding of the Holding in the company's capital reached 99.998%.

In 2004 IHB Plc increased its participation in Dounav Tours AD, Rousse. The two principal shareholders, IHB Plc and Union Tours OOD, signed a written agreement on following common policy for the management of Dounav Tours AD and made a commercial offer to the remaining shareholders of the company for the acquisition of their shares. The price of the commercial offer was BGN 11 per share. The offer was successful and thus IHB Plc and Union Tours OOD increased their interests by 2 064 shares or 0.43% each. By virtue of a decision of the General Meeting of Shareholders of Dounav Tours AD, the company was closed down and deleted from the Public Companies Register.

IHB Plc increased its shareholding in Dockyard Port-Bourgas AD by 0.16% to 91.44% of the company's capital.

The total amount of funds invested in corporate securities in 2004 is BGN 6 771 thousand.



Investments made in 2004 related to the realization of the major strategic objectives of IHB Plc:

Description of the investment	Number of shares	Capital expenditure / invested amount (in BGN)	Interest held in the company's capital	Location of the investment	Financing method
Bulyard AD	5 992 245	5 992 245	25.00%	Sofia	Own funds/ borrowings
ZMM Bulgaria Holding AD	250 000	293 375	4.47%	Sofia	Own funds
Sano Maritime Holding AD	102 258	455 998	39.00%	Varna	Own funds
Dockyard Port - Bourgas AD	219	674	0.16%	Sofia	Own funds
Dounav Tours AD	2 064	28 944	0.43%	Rousse	Own funds
Total for 2004		6 771 236			

2005

IHB Plc largest investment in 2005 was the increase of the shareholding in Bulyard AD. In February 2005 IHB Plc acquired 2 762 183 shares, representing 11.5% of the capital of Bulyard AD, thus its shareholding in Bulyard AD reached 36.5%.

Two months later IHB Plc acquired further 3 602 847 shares, representing 15% of the capital of Bulyard AD, thus now IHB Plc holds 51.50% of the company's capital. In this way IHB Plc has become the majority shareholder of Bulyard Shipbuilding Industry AD, where Bulyard AD holds 75% of the capital. The total amount of IHB Plc investment in Bulyard AD in 2005 amounts to BGN 8 302 thousand.

In 2005 IHB Plc invested in port operations. The investments in port operations have 2 directions – a company in Varna on the territory of Bulyard Shipbuilding Industry AD and new activity for Dockyard Port - Bourgas AD – construction of a port on the territory of the company. The ports are located on own terrains and holds licenses for ports of regional importance, which are their biggest competitive advantages. IHB Plc has shareholding in Odessoss PBM AD. The company has capital amounting to BGN 5 280 000 and its activities include the provision of port services and accompanying activities from/to ships and land transport vehicles. The other founders are Dockyard Odessoss AD and Plasco Investments Limited, while each of them holds 1 760 000 shares with a nominal value of BGN 1. Later during the year each of the three shareholders sold 10% of its shareholding in the company to Electromachinery Holding AD. As a result, IHB Plc holds 30% of Odessoss PBM AD at the amount of BGN 1 584 thousand.

The company used own funds for the investment in the port in Dockyard Port - Bourgas AD.

For the purpose of participating in the privatization of Bulgarian River Shipping, IHB Plc established a new company – Dounav River Shipping AD with a capital of BGN 50 thousand. Subsequently the intentions of the Management have changed and the company was sold to Dounav Tours.

In 2005 IHB Plc increased its shareholding in Dounav Tours by acquiring 14 373 shares or 2.96% for the amount of BGN 14,5 thousand. The other major partner of IHB Plc, Union Tours AD, has the same increase, thus the equality of the shareholding of each of them is preserved.



IHB Plc increased its shareholding in Dockyard Port - Bourgas AD by 0.28%, as a result of which it now holds 91.72% of the company's capital.

IHB Plc acquired 64 100 shares /0.87%/ of the capital of Bulgartabac Holding AD at the total amount of BGN 2 077 thousand or BGN 32.40 per share. Later during the year 17 312 shares were sold at the price of BGN 36.56 per share.

The total amount of funds invested in corporate securities in 2005 is BGN 12 205 thousand.

Description of the investment	Number of shares	Capital expenditure / invested amount (in BGN)	Interest held in the company's capital	Location of the investment	Financing method
Bulyard AD	6 365 030	8 302 448	26.50%	Sofia	Own funds/ borrowings
Odessoss PBM AD	1 760 000	1 760 000	33.33%	Sofia	Own funds
Bulgartabac Holding AD	64 100	2 077 447	0.87%	Varna	Own funds
Dockyard Port - Bourgas AD	388	718	0.28%	Sofia	Own funds
Dounav Tours AD	14 373	14 460	2.96%	Rousse	Own funds
Dounav River Shipping AD	50 000	50 000	100 %	Sofia	Own funds
Total for 2005		12 205 073			

2006

By virtue of a contract signed with Dockyard Odessoss AD on 28 March 2006, IHB Plc purchased 2 401 898 voting shares, representing 10% of the capital of Bulyard AD. Dockyard Odessoss AD terminated its participation in the capital of Bulyard AD, and IHB Plc increased its interest to 61.50%. The transaction value is BGN 3 120 100.

IHB Plc insignificantly increased its interests in the capitals of Dockyard Port – Bourgas AD by 20 shares or 0.01% and of Dounav Tours AD – by 60 shares or 0.01%.



The total amount of funds invested in corporate securities in 2006 is BGN 3 120 thousand.

Description of the investment	Number of shares	Capital expenditure / invested amount (in BGN)	Interest held in the company's capital	Location of the investment	Financing method
Bulyard AD	2 401 898	3 120 100	10%	Sofia	Own funds/ debenture loan
Dockyard Port - Bourgas AD	20	60	0.01%	Sofia	Own funds
Dounav Tours AD	60	300	0.01%	Rousse	Own funds
Total for 2006		3 120 460			

2007 till the date of preparation of this Registration Instrument

In February 2007 Bulyard AD, a subsidiary of IHB Plc, initiated procedure for purchase of 25% of the capital of Bulyard Shipbuilding Industry AD and was subsequently notified by Navigation Maritime Bulgare EAD that all permissions required for transaction execution were available. The procedure was finalized on 6 March 2007 when Bulyard AD acquired 5 469 476 shares, representing 25% of the capital of Bulyard Shipbuilding Industry AD. The transaction value is USD 5 555 555. As a result of the transaction, IHB Plc interest in the capital of Bulyard Shipbuilding Industry AD reached 61.50%.

By virtue of Decision No 5 dated 19 March 2007, Sofia City Court registered an increase in the capital of Bulyard AD from BGN 24 018 980 to BGN 32 618 980. The raised funds were used for payment up of 25% of the capital of Bulyard Shipbuilding Industry AD, which Bulyard AD acquired from Navigation Maritime Bulgare EAD.

IHB Plc participated in the increase in the capital of Bulyard AD through subscription of 5 289 000 shares of BGN 1 nominal value each, pro rata its interest in the capital of Bulyard AD.

By virtue of Decision No 6 dated 20 April 2007, Sofia City Court registered an increase in the capital of Bulyard AD from BGN 32 618 980 to BGN 37 292 980. The raised funds are intended for increase in the capital of Bulyard Shipbuilding Industry AD by BGN 5 000 000 – from BGN 21 877 905 to BGN 26 877 905.

IHB Plc subscribed 2 874 510 shares of BGN 1 nominal value and BGN 1 issue value each, pro rata its interest in the capital of Bulyard AD.

As a result of the two increases in the capital of Bulyard AD, as of the beginning of the year until the end of August 2007 IHB Plc invested BGN 8 146 thousand and its interest in the capital of Bulyard AD reached BGN 25 591 thousand.



IHB Plc insignificantly increased its interest in the capital of Dounav Tours AD by 261 shares or 0.01%.

Description of the investment	Number of shares	Capital expenditure / invested amount (in BGN)	Interest held in the company's capital	Location of the investment	Financing method
Bulyard AD	8 163 510	8 163 510	The interest held in the company's capital is preserved (61.50%)	Sofia	Own funds
Dounav Tours AD	261	1 187	0.05%	Rousse	Own funds
Total for the period 1 January 2007 – 31 August 2007		8 164 697			

➤ ***IHB Plc Group companies***

Following restructuring and consolidation of IHB Plc portfolio over the previous years, at present the Management focuses on investments in the companies – reconstruction and modernization of their basic production equipment with a view to removal of the “gaps” in the production process, expansion and renewal of production scope through introduction of new products demanded on the market and offered at best prices.

Over the last three years the following major investments by priority sectors and operations were made within the Group:

MARITIME BUSINESS

Shipbuilding and ship repair

After its new start in 2004 Varna Shipyard needed technological time and significant funds to restore its operations. The following urgent restoration investment events commenced:

- Zero line reconstruction at Hull Procession and Assembly Workshop K-1 and procession line restoration;
- Preparation for basic equipment commissioning – cranes reconstruction and crane runways repair;
- Gas facilities rehabilitation works;
- Purchase of modern welding machines and other equipment.

The total amount of some BGN 800 thousand was invested in the shipyard in the short period as of the establishment of Bulyard Shipbuilding Industry AD until the end of 2004. The basic technological equipment reconstruction and repair works were financed by own funds, involving the personnel of the company's servicing and supporting units.

In 2005 Bulyard Shipbuilding Industry AD continued the reconstruction works and commissioned the basic assets required for the restored building of new ships. In the year over BGN 3.5 million were invested in:

- Zero line reconstruction and modernization and procession line restoration at Workshop K-1 and controlling tests of technological equipment;
- Reconstruction and repair of roof structures and quay, gas facilities and galvanization section restoration;
- Purchase and commissioning of tangible non-current assets.



The investments were financed by own funds generated from operations. The services of specialized companies were used with the active participation of the company's servicing and supporting units.

The total amount of investment expenditures made by Bulyard Shipbuilding Industry AD in 2006 is over BGN 4.5 million, including maintenance and repair works. Major projects were implemented in relation to improvement of labour efficiency, including supply and commissioning of special plasma cutting and welding equipment, three-dimensional optic system for section measurement and TRIBON design system.

The implementation of the Investment Program for 2006 was financed by the reinvested profit for 2005 and a special purpose credit of EUR 1 million granted by SG Expressbank.

The shipyard continues to pursue its ambitious investment program in 2007 as well. The investments made since the beginning of the year are described in *Item 5.2.2. Description of the Issuer's major investments in process of realization, IHB Plc Group companies* on page 28 as they form part of the general innovations concept of the Management during the year and are going to be realized. Funds have been permanently invested in personnel training, qualification and re-qualification since the establishment of Bulyard Shipbuilding Industry AD.

Port operations

The change of the basic activity of Dockyard Port-Bourgas AD, i. e. the shift from ship repair to port operations, resulted in changes in the investment policy focus over the last three years.

In 2004 the efforts were directed at strengthening and expansion of the company's positions on the ship repair markets and preparation and registration of a public transport port of regional importance as the first step in the process of expansion of the scope of operations. The class repair of the floating dock continued and funds were invested in the dock pontoon modernization, heat insulation of the administrative building and solar system installation. Own funds at the amount of some BGN 300 thousand were invested.

In 2005 the investment policy of Dockyard Port-Bourgas AD focused on increasing production capacities and economic benefits from assets acquired. The implementation of a project for construction of an alternative port entrance/exit point and additional terrain was purchased. Two motor trucks were supplied to ensure the smooth running of the loading and unloading activities. In 2005 the company invested own funds at the amount of some BGN 400 thousand.

In 2005 the investment events were fully directed at port operations. Own and borrowed funds at the total amount of some BGN 1.1 million were invested in special purpose equipment, infrastructure establishment and open and closed store areas. The funds were provided by IHB Plc.

As at 30 June 2006 the company's assets mark an increase as a result of acquisition of new special-purpose equipment for reloading, including under lease. Other tangible non-current assets are also in building process /see *Item 5.2.2. Description of the Issuer's major investments in process of realization, IHB Plc Group companies* on page 28/. Various repair works are in process of completion. The total amount of funds invested in the first half of 2007, including in repair works, is some BGN 400 thousand.

Classification and certification

In the three years /2002-2004/ following the privatization of Bulgarian Register of Shipping AD, Varna, at the end of 2001, the company invested own funds at the total amount of some BGN 245 thousand following its investment program approved with the privatization agreement. Motor cars for the inspectors around the country were purchased and the computer equipment was replaced.

At the end of 2005 the Bulgarian Register of Shipping won a competition for state subsidy by the National Innovation Fund for a scientific and applied project for development of technology for inspection and appropriation of a ship class and an Internet-based system for inspection management. The term of the project is



two years, and it will be implemented in cooperation with experts of the Technical University in Varna by the end of 2007. Thus the Register will meet one of the conditions for its recognition by the European Union. The successful deployment of this technology will contribute to the synchronization of the Register's rules and regulations with the new requirements on shipbuilding and navigation safety and security issued by the International Maritime Organization /IMO/, creation of electronic database and the possibility for inspectors' work in real time. The funds disbursed for the project implementation in 2006 and the first half of 2007 amount to the total of some BGN 280 thousand. The agreed subsidy is at the amount of BGN 95 thousand.

MACHINE BUILDING

The investment policy of machine building companies is determined by ZMM Bulgaria Holding AD as per the group development priorities. Within it investments are made in the following three directions:

- ZMM Bulgaria Holding AD invests in shares of subsidiaries, including subscription of shares upon capital increase;
- The principal company grants loans to the companies to realize their investment objectives;
- The companies use own funds, bank loans, loans from the group or various state subsidy funds for financing their operations.

ZMM Bulgaria Holding AD gradually consolidated its investment portfolio through acquisition of new shares in its subsidiaries over the last three years and continues to do it as at present date. The funds invested by the holding in shares over the years are as follows:

- 2004 – BGN 857 thousand;
- 2005 – BGN 967 thousand;
- 2006 – BGN 2 109 thousand;
- As at 31.07.2007 – BGN 162 thousand.

ZMM Bulgaria Holding AD increased its control in the individual companies as compared to the end of 2003 through:

- Purchase of shares of ZMM Sliven AD, as a result of which its interest increased from 80.44% to 94.10%. Two tender offers were made to the remaining shareholders in 2004 and April 2007. Own funds were used for the financing;
- Increase in the number of shares held in the capital of Mashstroy AD from 73.06% to 80.81%. In 2005 one tender offer was realized. Own funds were invested;
- Increase in the shareholding in the capital of ZMM Nova Zagora AD from 87.06% to 93.57%. The major portion of the shares was purchased through two tender offers made to the remaining shareholders in 2004 and 2006. Own funds were invested;
- Purchase of the shares of Elprom ZEM AD, held by IHB Plc /62.76%/ in 2004, thus increasing its shareholding in the capital of the company to 79.71%;
- Increase of its control over Leyarmach AD from 66% at the end of 2003 to 99.9999% in 2005. In April 2007 the capital of Leyarmach AD was increased through issuance of 500 thousand new shares of BGN 1 nominal value each – 350 thousand shares were subscribed by ZMM Sliven AD and 150 thousand shares – by Mashstroy AD. Own funds of the group were invested. The holding increased its interest to 83.37% following capital increase and has 100% control over the company through ZMM Sliven AD and Mashstroy AD;
- Establishment of the new subsidiary **Bulkari EAD** in February 2006 with the purpose of participation in the privatization of 69.99% of the capital of Balkancar-Sredets AD, Sofia. It invested BGN 2 million, BGN 600 thousand of which in the form of loan from IHB Plc. The borrowed funds were repaid in July 2006.



The major investments of **the companies** within the group are directed at renovation and modernization of used equipment and technologies and improvement of produced machines and their structure and design following world trends in machine building and customer preferences. The funds disbursed for the purpose are as follows:

- 2004 – BGN 1.9 million;
- 2005 – BGN 1.5 million;
- 2006 – BGN 3 million.

In the last three years there were purchased and installed new strip cutting machines at **Mashstroy AD** and **ZMM Sliven AD**, second-hand processing centres at **ZMM Nova Zagora AD** and **ZMM Sliven AD**, second-hand high frequency hardening machine, vertical CNC centres and a CNC lathe 251 at **ZMM Nova Zagora AD**, second-hand surface grinder and screw cutting machine at **Mashstroy AD** and unique equipment was modernized at **Elprom ZEM AD** – a large boring machine. A procedure for purchase and installation of two new induction furnaces at **Leyarmach AD** and building of a laser cutting workshop at **Elprom ZEM AD** is going on. The basic technological units of the companies within the group are to be renovated /see *Item 5.2.2. Description of the Issuer's major investments in process of realization, IHB Plc Group companies* on page 28/.

The major activities related to product scope expansion and improvement, carried out by the individual companies to strengthen their positions on the market, are described in *Item 11. Research and development activities, patents and licenses* on page 124.

The major source of investment financing includes own funds and bank loans.

FURNITURE PRODUCTION

Over the past three years **Augusta Mebel AD** has been investing in equipment and facilities to diminish bottlenecks in certain stages of the production process, increase the quality of drying and processing of the materials, and manufacture high quality articles.

In 2004 efforts were mainly focused on reorganization of the management of the drying kilns. A new computer controlled panel cutting machine was purchased on lease and mounted. It resolved to a large extent panel cutting and article quality problems. The company finalized the purchase of additional terrain with a loan from IHB. About BGN 160 000 was invested during the year.

In 2005 the emphasis was on gasification. Machinery tools were delivered, partial repairs were carried out. Two more kilns were furnished with electric boards. Approximately BGN 150 000 was expended. The main part of the expenditures was generated in the course of general operations, the panel cutting machines was purchased on lease /see *above*/.

In 2006 Augusta Mebel AD continued to invest in machinery – it purchased a glue spreader for high quality gluing and pressing of wood. The CNC – a woodworking center for cutting and profiling details according to preset shapes – was overhauled. Various instruments and equipment were replaced. About BGN 100 000 was investment, mainly equity. The company paid special attention to its participation in the specialized fair in Köln.

Yearly in 2007 an energy-saving machine was delivered, which will improve the quality of surface processing and will diminish the dependency on subjective factors during burnishing. Funding was secured though a special purpose loan by DSK Bank EAD. A truck was purchased through a financial leasing contract. During the first half of the year about BGN 100 000 was invested. This is part of the investment program of Augusta Mebel AD for 2007 /see *Item 5.2.2* on page 28 and down/.

RIVER CRUISES

The most important investments made by Dounav Tours AD group for the past three years were the expansion of its fleet through the acquisition of three ships.



In 2004 the four-star *Rousse Prestige* ship was built and commissioned. The investment amounted to EUR 8.3 million. The bulk of the investment was secured through a special purpose loan by Raiffeisenbank /Bulgaria/ EAD.

In 2006 Dounav Tours AD group increased its fleet by two passenger ships. In July the tour operator Dounav EAD bought the motor ship *Heinrich Heine* for EUR 4.1 million with a credit extended by Raiffeisenbank /Bulgaria/ EAD and equity funds. In December Shipping Company Dounav EAD acquired motor ship *Elegant Lady* for EUR 7.2 million. The investment was funded with a credit by MKB Unionbank and equity. Presently Dounav Tours AD owns 5 ships.

In March Dounav Tours AD bought the yacht *Balkan*, owned by the Bulgarian State and launched renovations. So far about EUR 300 000 has been invested.

The annual regular repairs of the vessels are also a major investment. They are carried out with equity funds in the period December – March. The ships *Sofia*, *Rousse*, and *Rousse Prestige* are repaired in the shipyard of the city of Linz, Austria, and the forthcoming repairs of *Heinrich Heine* and *Elegant Lady* will be carried out in the shipyards of Rotterdam, the Netherlands. The planned and emergency repairs and maintenance works are carried out when necessary. The funds invested for repairs, including spare parts, docking, electricity, and other costs pertinent to repairs are as follows: 2004 – EUR 250 000, 2005 – EUR 320 000, 2006 – EUR 670 000.

In 2006 Dounav Tours AD invested BGN 5 100 000 for share acquisition, as follows:

- Tourist Company Dounav EAD – BGN 1 000 000 for shares from capital increase;
- Dounav Tours Hotels EAD – BGN 50 000 for shares from capital increase;
- Dounav River Shipping AD – BGN 50 000;
- Shipping Company Dounav EAD – BGN 4 000 000.

Presently Dounav Tours AD has 4 subsidiaries.

5.2.2. DESCRIPTION OF THE ISSUER'S MAJOR INVESTMENTS IN PROCESS OF REALIZATION

➤ *IHB Plc*

IHB Plc finances the investment projects of the companies in its Group, related to high-priority sectors of the economy, in the form of extension of loans and/or acquisition of shares of the capitals of these companies, including subscription of shares and capital increases. The funding of high-priority projects is carried out in the order of their occurrence in time. The investments are on the territory of the Republic of Bulgaria.

➤ *IHB Plc Group companies*

MARITIME BUSINESS

Shipbuilding and Ship Repair

In 2007 Bulyard Shipbuilding Industry EAD plans to purchase new machinery, and to construct and equip a blasting and painting chamber. The approved investment program of the company for 2007 is in excess of EUR 3 million. The execution of the investment program is aimed at an increase of labour productivity and resolution of issues related to better working conditions.



In June 2006 Bulyard Shipbuilding Industry EAD was approved for financing by the Working Conditions Funds to the Ministry of Labour and Social Policy with a project for construction of a indoors chamber for blasting and painting of sections in compliance with the European norms. The estimated value of the investment amounts to about BGN 2.5 million. In September 2007 reports will be submitted for the first stage of the project. The project is expected to be concluded in 2008. The total amount of the envisaged subsidy is BGN 150 000, which also covers recognized costs. The equity funds are secured through an increase of the capital of the shipyard. The chamber will cut down the construction cycle at the dock chambers and will contribute to a lower production cost of the process, while the painting processes will be carried out under better technological conditions.

During the first half of 2007 Bulyard Shipbuilding Industry EAD invested about BGN 1.5 million for: construction of the blasting and painting chamber, reconstruction of the old canteen of the plant, license by IHI Marine United Inc., Japan, construction of a new super handymax ship F56, strengthening of wharf walls, supplies of welding and other equipment, etc.

The detailed investments are in the process of implementation. Some of them are being realized with equity funds, but the main part of the program is being funded by the capital increase of the company and partially by a second special purpose loan by SG Expressbank amounting to EUR 1 million. A subsidy has been approved for part for the recognized costs for blasting and painting chamber */see above/*.

Maritime Transport /Future Activity/

In 2006 the subsidiaries companies **Emona Shipping Ltd.** and **Marciana Shipping Ltd.** negotiated the construction of two multi-purpose /MPC/ 9 800-ton ships in Bulyard Shipbuilding Industry EAD. The vessels are intended for unrestricted region of navigation and shipping of bulk freights and containers. The value of each ship is EUR 13.5 million. The payments will be made in EUR and USD. A part of the resources from the new share emission of IHB Plc is intended to cover the remaining 40% of the construction of ship 288 amounting to about EUR 5 400 000 and 70%, or about EUR 9 400 000 of the value of ship 289. The delivery term for the vessels is 2008. Their commissioning will mark the launch of another high priority business for the Group – maritime transportation, part of the maritime business sector.

Port Operations

The investment program adopted by **Dockyard Port – Bourgas AD** for 2007 amounts to about BGN 1.7 million and includes delivery of specialized equipment for its port operations and construction of the necessary infrastructure as a preparation for realization of the project for expansion and modernization of the port terminal of the company. The activities carried out during the half year term are indicated in *Item 5.2.1. Description of IHB Plc major investments over the last three financial years and till the date of the Registration Document* on page 19. There are some long-term fixed assets in the process of construction, related to the infrastructure of the port operations – building of a concrete road to the electric weighing machine, construction of the platform of warehouse №6 and a sub-crane path, installation of a gantry crane, erection of a fence, re-asphalting of roads, etc.

The management of Dockyard Port Bourgas AD and IHB Plc have a long-term vision for the development of the company involving serious investment activities */see Item 5.2.3 on page 31/*.

MACHINE BUILDING

In 2007 the companies in the machine building holding continue to invest in the improvement of their products, technological enhancements, overhaul and maintenance of the existing equipment and buildings.

The innovative program of **ZMM Sliven AD** for 007 amounts to about BGN 300 000 and stipulates costs for the elaboration of construction documentation for CNC machinery, investments in new machines, overhauls and planned maintenance of a part of the core machines and equipment.



There is an on-going effort to improve the construction and design of the machinery in line with the global trends in the machine building industry and client requirements, introduction of new materials and technologies to reduce production costs. About BGN 500 000 has been investment since the start of the year, of it BGN 350 000 for acquisition of shares of Leyarmach AD /see *Item 5.2.1* on page 19/. The company's investments are realized with equity funds.

Presently Mashstroy AD has realized about BGN 450 000 of the BGN 950,000 envisaged for investments in 2007, including repairs and maintenance funds. BGN 150,000 was used for acquisition of shares of Leyarmach AD /see *Item 5.2.1* on page 19. Activities are being carried out for mastering of the techniques necessary for the manufacture of lathes processing high-diameter components and the production of the mould-casing equipment for these components; deployment of a frequency control machine and two modifications of cycle machines; manufacture of a prototype of a specialized numeric control machine with eddy-current unit; and full technical documentation. Various tools are to be purchased and machines and plants are scheduled for repairs and maintenance. The investments will be financed with equity.

In 2007 **ZMM Nova Zagora AD** plans to invest over BGN 100 000 for improvement of the construction of the strip cutting machines, technological equipment for the manufacture of boxes for export with corpus processing machines, equipment and tools; overhaul of the thermo-processing kilns in the thermal workshop; deployment of rotary screw air compressors for the production process; launch of the replacement of central heating from production units with a local heating system using natural gas, etc. About BGN 130 000 of equity has been invested since the beginning of the year.

In 2007 **Elprom ZEM AD** envisages investments for commissioning of the VPI line, development of a new engine with VPI insulation, construction of a workshop for laser cutting, modernization of production units, improvement of labour safety, sanitary conditions and working environment. The investments are being realized. About BGN 800 000 of them was utilized for the six-month period.

This year the new insulation system - VPI line – will be commissioned. It includes: a strip rolling machine, a VPI installation, heating and baking ovens, a pyrolysis burning chamber. Elprom ZEM AD will be the only manufacturer in Bulgaria having such equipment. Part of the funds will be provided by the National Innovation Fund. The investment will be utilized for the design and development of machines with high energy efficiency or energy-saving electrical machinery, i.e. it will increase the operational characteristics and quality of the manufactured machines. The existing technology will be materially changed. The requirements of the future European partners will be met, the competitiveness of the products will be improved. The construction of the line was completed in September 2007.

Elprom ZEM AD invested over BGN 1.5 million for the construction of the laser cutting workshop. At the beginning of the year about BGN 500,000 was spent to purchase a plate cutting machine and manufacture of ready components with no use of die tools. It will improve the efficiency of the cutting process for stator and rotor units, used in the manufacture of electric engines and hydro generators. The funding was secured through equity funds and loans - EUR 315 000 special purpose loan from DSK Bank EAD and credits extended by the Group /. The machine was commissioned in September 2007 in a special workshop with sufficient space for a bender to be mounted and a separate production cycle to be effected.

In October 2006 the Labour Conditions Fund to the Ministry of Labour and Social Policy approved a project by Elprom ZEM AD for heating insulation of the building of the generator workshop, repair and modernization of the sub-crane path in the workshop. The contract was signed in the middle of 2007 and it will expire in September. The investment is for about BGN 244 000, including BGN 65 000 funding from the Fund with cost recognition.

In 2007 a renovation and modernization project was launched for **Leyarmach AD** capacities as well. The planned investment costs for the year amount to about BGN 2.4 million. The mounting of two new energy-saving induction kilns is under way; the process is expected to be completed in November. The objective is to meet the heightened requirements regarding the quality and quantity of the casts and the ensuring of healthy and safe working conditions. The necessary funding for the kilns amounts to about BGN 1.5 million and it will be



provided through a capital increase and a bank loan. The loan will be extended pursuant to the conditions of the energy efficiency credit line and part of it will be subsidized by the European Bank for Reconstruction and Development. About BGN 380 000 was disbursed for the first half of the year. In parallel to the kiln project, a project for independent power supply for Leyarmach AD will be launched.

The program of the company for 2007 also stipulates funds for:

- Execution of the first stage of the project for independent power supply up to 5 MW. The second stage is up to 10 MW and may be completed by the end of 2008;
- Development of new cases and increase of the production volumes by 80 tons per month;
- Manufacture of a new smelting bucket for moulds with unit weight of up to three tons, made of spheroidal graphite cast iron;
- Purchase of a cleaning machine which will meet clients' requirements as to the quality of the finishing works for the components.

FURNITURE PRODUCTION

The approved investment program of **Augusta Mebel AD** amounts to about BGN 150,000 and includes, apart from the costs incurred for the half year and described in *Item 5.2.1* on page 19 and on, the purchase of a wood moisture meter to be used when determining drying conditions and the end phase of the process, establishment of a CAD – CAM information system incorporating a plotter and computers, replacement of machine tools, roof repairs, preparation for participations in specialized fairs in the country and abroad, etc.

RIVER CRUISES

For 2007 Dounav Tours AD Group has envisaged investments amounting to EUR 780 000 for ship overhauls and maintenance. Committed

5.2.3. INFORMATION ABOUT MAJOR FUTURE INVESTMENTS OF IHB PLC FOR WHICH ITS MANAGEMENT BODIES HAVE ALREADY MADE MATERIAL COMMITMENTS

MARITIME BUSINESS

Maritime Transport /Future Activity /

The construction of a third vessel for the group of Industrial Holding Bulgaria AD has been launched – a multi-purpose 21,000 ton ship intended for unrestricted region of navigation and shipping of bulk cargo, with completion term December 2009. It will belong to Karvuna Ltd., the Marshall Islands – a new subsidiary of Privat Engineering AD. It will cost EUR 21 million. As of this moment the first advance payment amounting to EUR 613 000 has been paid with equity funds of Privat Engineering AD. The next instalment of EUR 4 200 000 is to be paid at the beginning of February 2008. It will be covered by the funds collected from the new emission of IHB Plc shares. For the funding of the rest of the construction stages, there may be a necessary for new increases of the capital of Privat Engineering AD or credit resources and funds generated from the business activities of the company.

Port Operations

The management of IHB Plc and Dockyard Port – Bourgas AD intend to launch the project for expansion and modernization of the port terminal of the company. It is in compliance with the announced directions of the National Program for Development of Bulgarian Ports 2006-2012. The pre-feasibility studies were carried out



early in 2007 and in July – the General Plan for Development of the Port, developed by Transproject – Sofia. The Plan envisages an extension of the existing wharf wall by another 180 meters to the west and utilization of water territories amounting to 16 468 square meters using a special technology - feather-joint partitioning. In this way the total area of the port will be about 80 000 square meters. Furthermore, fortification works will be carried out on the old wharf wall. The berths will be increased to three of 125 meters each. The project stipulates an option for the construction of an additional wharf. In the westernmost part of the port there will be a specialized grain terminal, the rest will be used for processing and storage of general cargo. The project is expected to be completed in three years and will cost about BGN 23 million. A tender competition will be announced for its implementation. For initial funding Dockyard Port – Bourgas AD was granted a loan of EUR 224 000 by IHB, and leasing schemes were negotiated for part of the new equipment which has been already purchased and will be delivered in 2007. The estimated investments in the project amount to about EUR 2 million and will be funded by the capital increase of IHB.

In August 2007 the company finalized a deal for the sale of the floating dock amounting to EUR 1 150 000. The funds will be invested in the project.

No definitive commitments for major investments have been made for any other industry or sector.

In the forthcoming years new capital costs may be realized in case of funding of new or development of already started projects of IHB Plc and its subsidiaries, including such related to the investment program of the dockyard for the respective year, further stages of the expansion of the port terminal in Bourgas, concessions of passenger ports at the Danube, conclusion of contracts for construction of new ships, potential new capital increases of Privat Engineering, etc. The potential capital costs are related to IHB Plc development priorities in the medium term and the set investment objectives, described in *Item 12.3. Material plans related to operations* on page 128.



6 OVERVIEW OF OPERATIONS

6.1 KEY OPERATIONS

IHB Plc is a company established in 1996 as a privatization fund under the Law on Privatization Funds with core scope of activity including acquisition of shares in companies offered for privatization in compliance with the provisions of Chapter 8 of the Law on Transformation and Privatization of State-Owned and Municipal Enterprises (mass privatization), management and sale of these shares and investments in securities of other issuers.

In February 1998 the Company rearranged its operations as a holding under the Law on Commerce and was renamed to IHB Plc. The basic operations of IHB Plc over the last 3 years were focused on:

- Acquisition, assessment and sale of shareholdings in other companies;
- Management of the companies within its own portfolio, where IHB Plc has control, directly or through related parties;
- Establishment of new companies;
- Investment in the companies within the portfolio, in which IHB Plc has long-term interests;
- Financing of the companies in which the Holding participates.

Acquisition, assessment and sale of shareholdings in other companies

IHB Plc follows a policy for optimization of its portfolio. The Company acquires stakes of shares in the equities of companies, in which it has long-term interests. The main objective is to achieve control of over 50%, allowing to determine the development strategy and to manage these companies.

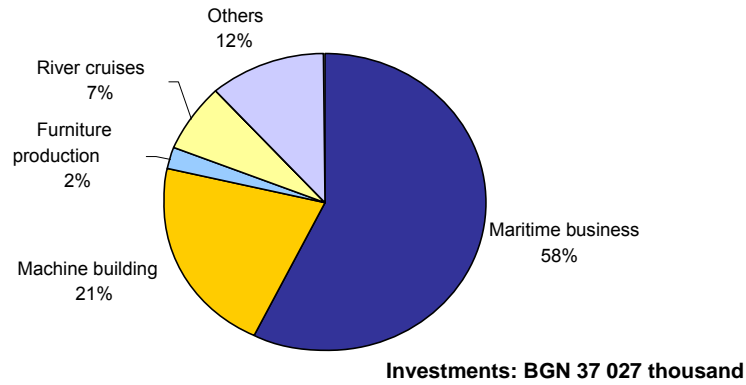
To determine and keep up appropriate strategy in respect to its portfolio IHB Plc periodically assesses its shareholdings. The attractiveness of the sector, in which the respective company operates, is assessed on one hand, as well as the competitiveness of the company itself, on the other. The development opportunities of the specific company are assessed as well as the possibility for IHB Plc to manage the company, contributing through its management for the appreciation of the company. Based on the assessments made, the Management of IHB Plc determines its strategy to the companies within the portfolio, which generally might include:

- Keeping the company in the portfolio, ensuring effective management and development, investment in the company;
- Keeping the company in the portfolio without making any investments and interfering in the management;
- Sale of the shareholding in the company;
- IHB Plc sells the minority shares in companies, in which it cannot influence the management, as well as the majority shareholdings in companies, developing in sectors, which fall outside the Holding's strategy.

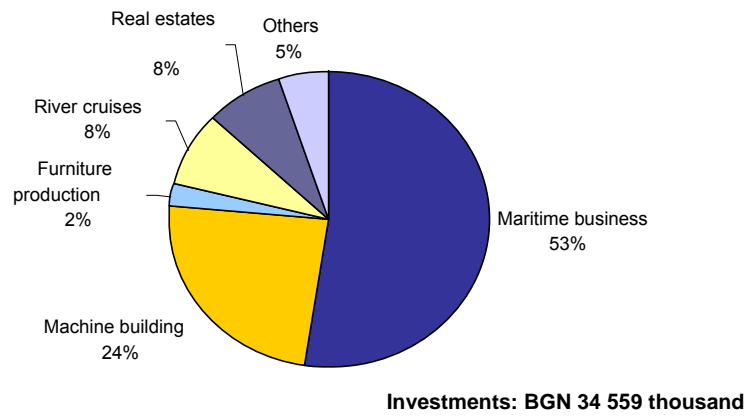


Figures 1-3: IHB Plc portfolio structure as at 31 December of the last 3 years

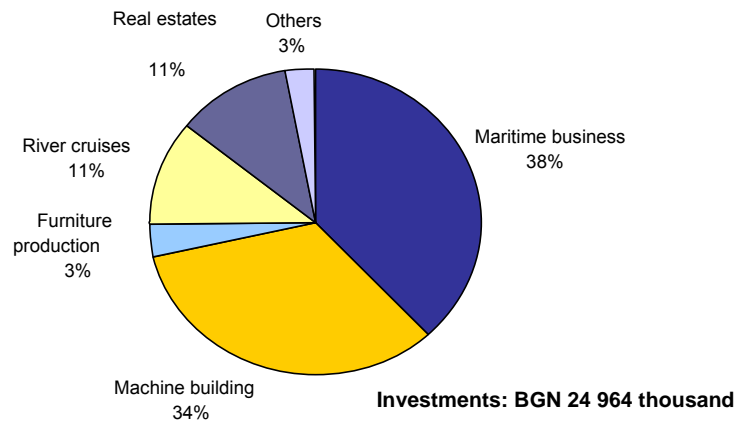
2006 Portfolio structure



2005 Portfolio structure



2004 Portfolio structure





Management of the companies in IHB Plc portfolio

In its strategy IHB Plc counts on ensuring the effective management of the companies in the portfolio, where control is exercised and there is long-term interest.

Activities focused in this direction include:

- Active participation in the strategic management of subsidiaries ;
- Assistance and competent expert support to the subsidiaries in respect of business planning, financial securing, technological securing, implementation of new technologies, installation and commissioning of new equipment and facilities, repairs of equipment and facilities, steps aimed at reducing production costs, development and production of new products, improvement of existing items, quality improvement, marketing and sales, organizational management, human resources and public relations.

Establishment of new companies

Over the period of its existence IHB Plc has established several new subsidiaries. By means of these subsidiaries the Holding acquires interests in companies in its portfolio or implements new investment projects.

Investments in companies in IHB Plc portfolio

IHB Plc invests in the companies in its portfolio, where it has long-term interests and where it assesses development potential exists. In most cases investments are made through capital increase or in rare cases – through financing of subsidiaries or acquisition of the interests of remaining shareholders.

Financing of the companies in which the Holding has interests

IHB Plc finances the companies in its portfolio through bank credits and loans. The granted loans are short-term and long-term – for working financing of the production activities and for investments.

6.2 MAJOR MARKETS

➤ *Major markets of IHB Plc*

The scope of basic activity of IHB Plc includes the acquisition, management, assessment and sale of shareholdings in other companies and financing of its subsidiaries. Therefore, it is impossible to discuss IHB Plc markets in the sense of markets for goods and services.

IHB Plc operating income as at 31 December 2004, 2005 and 2006

In thousands of BGN	2006	2005	2004
Interest income	220	289	396
Gains on sale of shares	187	6 997	197
Unrealized gains/ loss from assets revaluation	281	(206)	74
Income from dividends	1 218	862	684
Income from sale of services	1 036	113	673
Other income	4	0	17
Total income	2 946	8 055	2 041



➤ *Major markets of IHB Plc Group companies*

The tables below present the regional markets of the subsidiaries of IHB Plc, where they realized their sales income over the reporting three-year period.



Information about subsidiaries' incomes by activity categories, major markets and customers

Company: BULYARD AD, - consolidated sales with BULYARD SHIPBUILDING INDUSTRY EAD, Varna			/in thousands of BGN/								
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	70 916	2 344	68 572	68 492						80
2	Services	287	287								
3	Other sales income	2 909	2 909								
Total sales income		74 112	5 540	68 572	68 492						80
including export by country *				Malta – 68%, Cyprus – 23%, Romania – 5%, Greece – 2%, etc.							

* The main countries where the Company exported its production (share in % of total export) are given.

2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	19 289	4 451	14 838	14 810						28
2	Services	130	130								
3	Other sales income	4 877	4 877								
Total sales income		24 296	9 458	14 838	14 810						28
including export by country				Turkey – 51.3%, Greece – 12.8%, Malta – 4.1%, Cyprus – 2.3%, etc.							

2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	15 401	10 930	4 471	3 355	1 116					
2	Services	60	60								
3	Other sales income	1 962	1 962								
Total sales income		17 423	12 952	4 471	3 355	1 116					
including export by country				Cyprus – 29.5%, Marshall Islands – 25%, Norway – 16.4%, Malta – 5.5%, Greece – 5.2%, etc.							



Company: DOCKYARD PORT - BOURGAS AD, Bourgas				/in thousands of BGN/							
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia, Ukraine	Middle East	Asia	Africa
1	Services	3 702	1 105	2 597	780		676	1 141			
2	Other sales income	328	328								
	Total sales income	4 030	1 433	2 597	780		676	1 141			
	including export by country *			Denmark – 15%, Russia – 33%, Ukraine – 11%, Greece – 8%, Panama – 26%, etc.							
* The main countries where the Company exported its production (share in % of total export) are given.											
2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia, Ukraine	Middle East	Asia	Africa
1	Services	3 097	892	2 205	917	456		348	484		
2	Other sales income	205	205								
	Total sales income	3 302	1 097	2 205	917	456		348	484		
	including export by country			Syria - 22%, USA – 21%, Denmark - 9%, Malta - 10%, Russia - 11%, Turkey - 4%, Greece - 5%, Ukraine - 4%, Cyprus – 1%, etc.							
2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia, Ukraine	Middle East	Asia	Africa
1	Services	2 831	1 555	1 276	489		60	112	615		
2	Other sales income	163	163								
	Total sales income	2 994	1 718	1 276	489		60	112	615		
	including export by country			Syria - 30%, Israel - 18%, Cyprus - 15%, Italy - 13%, Russia - 7%, Turkey - 5%, Greece - 4%, Ukraine - 2%, etc.							



Company: MARITIME HOLDING AD, Varna – consolidated sales with Bulgarian Register of Shipping AD, Varna											/in thousands of BGN/	
2006												
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Oceania	Africa	
1	Services	1 921	1 428	493	218	5	60		186	15	9	
2	Other sales income	7	6	1	1							
	Total sales income	1 928	1 434	494	219	5	60		186	15	9	
including export by country *			Israel – 19%, Syria – 18%, Turkey – 10.8%, Malta – 8.8%, Cyprus – 8.4%, etc.									

* The main countries where the Company exported its production (share in % of total export) are given.

2005												
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa	
1	Services	2 076	1 526	550	339	6	29		92	6	78	
2	Other sales income	3		3	3							
	Total sales income	2 079	1 526	553	342	6	29		92	6	78	
including export by country			Greece – 20.6%, Saint Vincent – 14.9%, Turkey – 12%, Malta – 11.6%, Israel – 9.3%, Syria – 7.4%, etc.									

2004												
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa	
1	Services	1 731	1 377	354	257	9			84	4		
2	Other sales income	14	13	1					1			
	Total sales income	1 745	1 390	355	257	9			85	4		
including export by country			Greece - 25.6%, Malta - 18.9%, Israel - 9.6%, Turkey - 6.5%, Syria - 14.4%, etc.									



Company: MASHSTROY AD, Troyan			2006										/in thousands of BGN/
No	Sales income	Total income	Domestic market	Export, including:									
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa	Australia	
1	Production	14 228	764	13 464	7 505	841	1 252	1 137	1 633	110	986		
2	Services	67	67										
3	Other sales income	257	257										
	Total sales income	14 552	1 088	13 464	7 505	841	1 252	1 137	1 633	110	986		
	including export by country *			Turkey – 20.95%, Italy – 11.66%, Syria – 8.58%, Germany – 17.73%, USA – 5.47%, Columbia – 5.17%, Russia – 8.45%, Egypt - 5.39%, etc.									

* The main countries where the Company exported its production (share in % of total export) are given.

			2005									
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa	Australia
1	Production	12 908	549	12 359	7 033	1 082	1 244	444	1 422	606	528	
2	Services	106	106									
3	Other sales income	336	336									
	Total sales income	13 350	991	12 359	7 033	1 082	1 244	444	1 422	606	528	
	including export by country			Turkey – 26 %, Italy – 11.33%, Syria – 9.41%, Germany – 13.14%, USA – 7.64%, Columbia – 5.74%, etc.								

			2004									
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa	Australia
1	Production	11 715	552	11 163	7 399	433	630	13	2 096	78	514	
2	Services	77	77									
3	Other sales income	286	286									
	Total sales income	12 078	915	11 163	7 399	433	630	13	2 096	78	514	
	including export by country			Turkey – 23.68%, Italy – 14.36%, Syria – 15.96%, Germany – 15.99%, USA – 3.69%, etc.								



Company: ZMM Sliven AD, Sliven				/in thousands of BGN/							
No	Sales income	Total income	Domestic market	2006 Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	17 785	290	17 495	9 731	4 099	534	2 178	459	153	341
2	Goods	18	18								
3	Services	43	43								
4	Other sales income	364	364								
	Total sales income	18 210	715	17 495	9 731	4 099	534	2 178	459	153	341
	including export by country *			Turkey – 15.03%, Italy – 16.22%, USA – 22%, Russia – 12.46%, Germany – 9.13%, Spain – 2.40%, England – 2.25%, etc.							

* The main countries where the Company exported its production (share in % of total export) are given.

No	Sales income	Total income	Domestic market	2005 Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	17 541	167	17 374	11 217	3 157	49	1 904	434	510	103
2	Goods	20	20								
3	Services	62	62								
4	Other sales income	338	338								
	Total sales income	17 961	587	17 374	11 217	3 157	49	1 904	434	510	103
	including export by country			Turkey - 37.48%, Italy - 10.38%, USA - 18.07%, Russia - 10.96%, Germany – 4.29%, Holland – 2.71%, etc.							

No	Sales income	Total income	Domestic market	2004 Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	14 789	18	14 771	10 585	2 094	7	1 423	402	219	41
2	Goods	17	17								
3	Services	41	41								
4	Other sales income	329	329								
	Total sales income	15 176	405	14 771	10 585	2 094	7	1 423	402	219	41
	including export by country			Turkey - 33.54%, Italy – 18.58%, USA - 14.18%, Russia – 9.63%, Holland - 4.25%, Germany – 3.58%, etc.							



Company: ZMM Nova Zagora AD, Nova Zagora				/in thousands of BGN/							
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	4 316	3 521	795	720			75			
2	Other sales income	23	23								
	Total sales income	4 339	3 544	795	720			75			
	including export by country *			Germany – 89.81%, Greece – 0.76% and Russia – 9.43%.							
* The main countries where the Company exported its production (share in % of total export) are given.											
2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	3 812	3 273	539	539						
2	Other sales income	301	301								
	Total sales income	4 113	3 574	539	539						
	including export by country			Germany – 99.4% and Italy – 0.6%							
2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	3 151	2 477	674	674						
2	Other sales income	112	112								
	Total sales income	3263	2 589	674	674						
	including export by country			Germany – 99.8%, Spain – 0.1% and Holland – 0.1%.							



Company: LEYARMACH AD, Sofia			2006									/in thousands of BGN/		
No	Sales income	Total income	Domestic market	Export, including:										
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa			
1	Production	3 419	2 896	523	523									
2	Services	357	340	17	17									
3	Other sales income	61	58	3	3									
	Total sales income	3 837	3 294	543	543									
	including export by country *			Germany – 93.01%, Italy – 0.92%, Great Britain – 2.39% and others – 3.68%										
* The main countries where the Company exported its production (share in % of total export) are given.														
			2005											
No	Sales income	Total income	Domestic market	Export, including:										
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa			
1	Production	3 689	2 836	853	853									
2	Services	106	87	19	19									
3	Other sales income	70	70											
	Total sales income	3 865	2 993	872	872									
	including export by country			Germany – 87.73%, Great Britain – 1.49%, Italy – 10.09% and others – 0.69%.										
			2004											
No	Sales income	Total income	Domestic market	Export, including:										
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa			
1	Production	2 986	2 830	156	156									
2	Goods	35	35											
3	Services	80	80											
4	Other sales income	121	121											
	Total sales income	3 222	3 066	156	156									
	including export by country			Italy - 49.3%, Germany - 39.1% and Great Britain - 11.6%.										



Company: ELPROM ZEM AD, Sofia				/in thousands of BGN/							
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	2 174	1 404	770	770						
2	Services	5 971	5 703	268	268						
3	Other sales income	1 695	1 695								
	Total sales income	9 840	8 802	1 038	1 038						
	including export by country *			Slovakia – 68.7%, Albania – 25.8%, Czech Republic – 5.1% and Macedonia – 0.4%.							
* The main countries where the Company exported its production (share in % of total export) are given.											
2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	931	888	43	43						
2	Services	5 010	5 010								
3	Other sales income	376	376								
	Total sales income	6 317	6 274	43	43						
	including export by country			Czech Republic – 48.8%, Switzerland – 39.6% and Austria – 11.6%.							
2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Production	932	865	67	5				62		
2	Services	3 426	3 426								
3	Other sales income	214	214								
	Total sales income	4 572	4 505	67	5				62		
	including export by country			Syria – 92.5% and Macedonia – 7.5%.							



Company: AUGUSTA MEBEL AD, Shoumen			2006									/in thousands of BGN/
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Uzbekistan	Middle East	Asia	Africa	
1	Production	2 998	663	2 335	2 223	112						
2	Services	34	34									
3	Other sales income	34	34									
	Total sales income	3 066	731	2 335	2 223	112						
	including export by country *			Ireland – 58.58%, Great Britain – 16.07%, Greece – 13.87%, France – 6.52%, USA – 4.78%, etc.								
* The main countries where the Company exported its production (share in % of total export) are given.												
			2005									
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Uzbekistan	Middle East	Asia	Africa	
1	Production	2 543	1 169	1 374	1 282	69			23			
2	Services	15	15									
3	Other sales income	47	47									
4	Dividend written-off	17	17									
	Total sales income	2 622	1 248	1 374	1 282	69			23			
	including export by country			Great Britain – 51.60%, Greece – 8.23%, France – 32.17%, USA – 5.02%, Uzbekistan – 1.67% and Slovenia – 1.31%.								
			2004									
No	Sales income	Total income	Domestic market	Export, including:								
				Total export	Europe	North America	Latin and South America	Uzbekistan	Middle East	Asia	Africa	
1	Production	2 963	977	1 986	1 705	238			43			
2	Services	19	19									
3	Other sales income	91	91									
	Total sales income	3 073	1 087	1 986	1 705	238			43			
	including export by country			France – 37.5%, Great Britain – 34.5%, Greece – 13.8%, USA – 12% and Uzbekistan – 2.2%.								



Company: PRIVAT ENGINEERING AD, Sofia				/in thousands of BGN/							
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	1 561	1 561								
2	Other sales income	14	14								
	Total sales income	1 575	1 575								
2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	2 624	2 624								
2	Other sales income	16 661	16 661								
	Total sales income	19 285	19 285								
2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	2 490	2 490								
2	Other sales income										
	Total sales income	2 490	2 490								

Emona Shipping and Marciana Shipping, subsidiaries of Privat Engineering AD, carry out no activities as at present date. The companies were established in February 2006.



Company: HYDRO POWER BULGARIA AD, Sofia				/in thousands of BGN/							
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	24	24								
	Total sales income	24	24								

2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	24	24								
	Total sales income	24	24								

2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	24	24								
	Total sales income	24	24								



Company: KLVK AD, Sofia		/in thousands of BGN/									
2006											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	133	133								
	Total sales income	133	133								

2005											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	55	55								
2	Other sales income	3 217	3 217								
	Total sales income	3 272	3 272								

2004											
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	148	148								
	Total sales income	148	148								



Company: INTERNATIONAL INDUSTRIAL HOLDING BULGARIA AG, Switzerland

/in thousands of BGN/

		2006									
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	195	195								
2	Investment income										
	Total sales income	195	195								
	including export by country *										

* The main countries where the Company exported its production (share in % of total export) are given. **The domestic market is Switzerland.**

		2005									
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	195	195								
2	Investment income	1 495		1 495	1 495						
	Total sales income	1 690	195	1 495	1 495						
	including export by country			Cyprus – 100%.							

		2004									
No	Sales income	Total income	Domestic market	Export, including:							
				Total export	Europe	North America	Latin and South America	Russia	Middle East	Asia	Africa
1	Services	776	776								
2	Investment income	1 584		1 584	1 584						
	Total sales income	2 360	776	1 584	1 584						
	including export by country			Cyprus – 100%.							



6.3 DATA ON INFLUENCE OF FACTORS OF EXTRAORDINARY NATURE ON THE PRESENTED INFORMATION ABOUT KEY OPERATIONS AND MAJOR MARKETS

Over the last 3 financial years the operations of IHB Plc were not influenced by factors of extraordinary nature.

6.4 INFORMATION ON THE LEVEL OF THE ISSUER'S DEPENDENCE ON PATENTS, LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW PRODUCTION PROCESSES

➤ IHB Plc

Since the establishment of the Company until the date of this Registration Instrument its operations have not been dependent on patents, license, franchise agreements and other intellectual property items and concession rights.

IHB Plc owns a registered combined trademark No 44809 with an application date 17 May 2003 and protected term 27 June 2011, representing the corporate sign of IHB Plc.

➤ IHB Plc Group companies

MARITIME BUSINESS

Shipbuilding

The shipbuilding and ship repair businesses are not subject to patents. The ships built and repaired by Bulyard Shipbuilding Industry EAD are subject to classification and certification by classification societies. The choice of register depends on the ship owner. Presently, the shipbuilding and repair activities of Bulyard Shipbuilding Industry EAD are supervised by Bulgarian Register of Shipping AD, Germanischer Lloyd, Lloyd's Register of Shipping, Bureau Veritas, the Swedish Register DNV, and the Japanese Register NKK. Certification is carried out during all building stages – certification of project documentation, delivery of materials, monitoring of the building quality at each stage – from the cutting out of the iron sheets to the hoisting of the flag. Inspections are made during the whole building process. Mistakes and incompliance are discovered during the current construction stage and eliminated. There have been no rejections to certify a ship built by Bulyard Shipbuilding Industry EAD.

In order for the dockyard to perform its operations, it needs to employ certified welders.

Usually the ships built by Bulyard Shipbuilding Industry EAD are of its own design. In 2007 the company reached an agreement with IHI Marine United Inc., Japan for the purchase of the design of a ship for bulk cargo – a 57,000-ton Future-56 and for cooperation for the building of this type of ships starting in 2008. Thus, the dockyard will now offer a new type of ship with which ship owners are familiar and which has a better price/net load ratio. As of this document, Bulyard Shipbuilding Industry EAD has signed three contracts to build such ships.

Bulyard Shipbuilding Industry AD has signed contracts to built two hulls for cargo ships with building numbers 190 and 191 with Flekkefjord Slipp & Maskinfabrikk AS, Norway. The ships are being built under the license and project documentation of the Norwegian ship design company Vik Sandvik. The license has not been bought by Bulyard Shipbuilding Industry EAD.

As of March 2007 the dockyard has been certified under the quality management system in compliance with the requirements of ISO 9001:2000. The scope of the certificate covers design of vessels, ship repairs, and shipbuilding. The certifying body is BV – Bureau Veritas Certification, Bulgaria.



Shipbuilding depends on the supplies of equipment of key importance – such as ship engines, generators, cranes. In case of problems with the supply of such equipment, there may be difficulties with the fulfilment of the shipbuilding contract.

Ship Repair

In order to carry out ship repairs, the dockyards needs to hold a license for welding operations, for inspections of the condition of the ship, for inspection of the condition of the hoisting equipment of the ship, and for inspection of the condition of the life-guard facilities of the ship, a license for non-authoritative control /inspection of the quality of the seams/. These licenses are obtained from classification and certification societies.

Bulyard Shipbuilding Industry EAD holds a license for welding operations and uses sub-contractors holding the respective licenses for the rest of the operations.

The requirements for ship repairs are lower than those for shipbuilding and therefore the licensing for shipbuilding activities is sufficient for ship repair activities as well.

Port Operations

The companies engaged in port operations are not subject to patents but need to hold licenses.

For port operations it is necessary to have certificates for registration of a port, for port operator, and for port compliance, which are issued by Port Administration. To handle cargo the port needs to hold a certificate for processing of the respective type of cargo, which is also issued by Port Administration.

Both ports – Dockyard Port Bourgas and Odessoss PBM hold certificates for ports of regional importance which need to be renewed every three years, with compliance inspections performed annually.

The ports hold Certificate for Port Registration, Certificate for Port Operator, and Certificate for Operational Compliance.

Both ports hold certificates for processing of general, non-hazardous liquid cargo, and bulk food-grade cargo. They are located on their own land which makes them independent from concessions and represents a competitive advantage.

Dockyard Port – Bourgas AD has been certified by SGS for its port operations under the international quality management system ISO 9001:2000 since 2006.

Classification and Certification

The business of Bulgarian Register of Shipping EAD is not subject to patents.

After the accession of Bulgaria to the European Union, Bulgarian Register of Shipping AD will have to be recognized by the European Maritime Safety Agency /EMSA/. The recognition is obligatory for the ship registers of the EU member states in order for them to carry out their business in the ports, dockyards and shipyards of the EU and classify and certify ships sailing under the flags of EU states.

Bulgarian Register of Shipping AD submitted all necessary documents for recognition by EMSA in 2006. The licensing usually takes several years – it took the Polish Register of Shipping 5 years to be recognized. Bulgarian Register of Shipping AD will not suffer any negative consequences from the lack of this license, as the Ministry of Transport through the Maritime Administration will guarantee for Bulgarian Register of Shipping AD until the decision of EMSA is announced.

In order to make ship inspections in the USA, it is necessary to hold a license by the Coastal Guard of USA. Bulgarian Register of Shipping AD holds such a license as of 1 September 2005.



Mutual supersession contracts with other classification societies are very important for the business of Bulgarian Register of Shipping AD. In case of such contracts one classification body can inspect ships on behalf of the other, if the latter has assigned such an inspection.

Bulgarian Register of Shipping AD has concluded bilateral contracts for mutual supersession with almost all classification societies - members of the International Association of Classification Societies (IACS). Bulgarian Register of Shipping AD has concluded bilateral contracts for mutual supersession with 19 classification societies from around the world.

Bulgarian Register of Shipping AD has a contract with the Maritime Administration of the Republic of Bulgaria to carry out inspections under conventions.

Bulgarian Register of Shipping AD is certified by the Lloyd's Register under the international quality management system ISO 9001:2000.

MACHINE BUILDING

The companies in the group of ZMM Bulgaria Holding AD – Mashstroy AD, ZMM Sliven AD, ZMM Nova Zagora AD, Leyarmach AD, and Elprom ZEM AD are not subject to foreign patents and license contract for the products they manufacture.

The companies own trademarks, service marks, and technical documentation for the products they manufacture.

All companies of ZMM Bulgaria Holding AD are certified under the quality management system ISO 9001:2000. Elprom ZEM AD holds two more certificates - ISO 14 001:2004 for environmental protection and ecological production, and OHSAS 18 001:1999 ensuring healthy and safe labour conditions, issued by SGS.

The companies of ZMM Bulgaria Holding AD are not dependant on industrial, commercial, and financial contracts or new production processes.

FURNITURE PRODUCTION

The operations of Augusta Mebel AD are not subject to patents, licenses, or industrial, commercial, and financial contracts or new production processes.

The company is certified by SGS for quality under ISO 9001:2000.

RIVER CRUISES

The operations of Dounav Tours AD are not dependent on patents and licenses, as well as industrial, commercial, and financial contracts or new production processes.

There are no requirements for categorization of the hotel part of the ships.

The ships of Dounav Tours AD and its subsidiaries are subject to certification for technical compliance from the moment of their building and after repairs have been carried out. There are requirements for the minimum number and competence of the ship crews for each ship. The ships of Dounav Tours AD sail under the Bulgarian flag and meet all requirements.



6.5 DATA ON IHB PLC COMPETITIVENESS AND GROUNDS FOR THE STATEMENTS MADE

The analysis of IHB Plc operations and the structure of its portfolio of subsidiaries indicate the existence of a number of competitive advantages, which predetermine its ability to maintain the profitability level. The main factors and prerequisites, which determine the high competitiveness of the Holding, are as follows:

- *Professional training of the Management and the personnel* – it determines the efficiency of the management actions for using environment opportunities and adoption of timely and efficient measures for protection and minimization of the effect of risks generated by this environment. As to personnel management, a long-term method is adopted and applied, which is related to preliminary and subsequent personnel qualification and motivation. Efforts are made for attraction and keeping of top and middle management and key experts;
- *Experience effect* – it is expressed in time and money savings as a result of the experience accumulated in the company in respect of the economic situation, regulatory framework, relations and contacts with government authorities and institutions, etc.;
- *Transparency of IHB Plc operations before the investors* – information regarding the operations is provided as comprehensively as possible, in accordance with the law and the best international practices and in due time, to the stock exchange, regulatory authorities and at the website of the Company;
- *Access to various sources of financing* – the legal organizational form of IHB Plc, its public status and the fact that it is listed on the stock exchange, as well as the existence of a large number of assets on consolidated base, provide the opportunity for the company to utilize both internal sources of financing and a wide range of external sources /issuance of securities – shares and bonds, bank loans, leases, etc./;
- *Diversification of the portfolio in various economic sectors* – predetermines the maximization of the return on the portfolio with an accompanying decrease of the risk therein;
- *Existence of subsidiaries focused on exports* – contributes for the increased competitiveness of the Holding through reducing the interrelation of its profitability with the incomes of the population and other factors of the macro environment and the level of investment activeness of the Bulgarian companies;
- *Vertical integration* – reduces the risk of adverse impact by the customers or suppliers on the profitability of some of the subsidiaries of IHB Plc, whose products represent components in the products of other companies within the portfolio;
- *Effect of scale* – on one hand it is expressed in respect of grossing up of the supplies, decreases in the prices of raw materials and materials, deferral of payments, and on the other – intensifying of the marketing efforts and improvement of their effectiveness as a result of the existence of strategic units within IHB Plc portfolio, operating in one and the same sector of the economy and manufacturing identical or similar products;
- *Existence of subsidiaries of the type “cash cow”* – results in the possibility to generate resources for investments by subsidiaries which operate in sectors with a decreasing growth and with a significant market share at the same time and the direction of funds accumulated to subsidiaries of the type “star” or “dog”, i.e. such operating in sectors with a high growth in demand and profitability and respectively having significant or insignificant market share, which predetermines the strategic long-term effectiveness of IHB Plc operations.



6.6 DESCRIPTION OF KEY SEASONAL ACTIVITIES

➤ *IHB Plc*

IHB Plc operations are not seasonal in the sense it is considered. However, the following specifics should be pointed out:

- The activities related to acquisition and sales of shares are not regular /monthly/. IHB Plc acquires shares when lucrative investment opportunity emerges. The Company sells its shareholdings in the same manner – when it no longer has interest in the particular entity and/or when it gets a lucrative proposal by a potential investor;
- Dividend income is received once a year, following the holding of the regular annual general meetings of the subsidiaries and if profit is distributed.

➤ *IHB Plc Group companies*

The activities of IHB Plc Group subsidiaries are not seasonal. Only the activity of Dounav Tours AD, an associate, has seasonal character. The information about this seasonal character is given in *Item 4. Risk factors, Non-systematic risks, River cruises* on page 17.

6.7 DESCRIPTION OF MATERIALS AND RAW MATERIALS OF IMPORTANCE FOR THE OPERATIONS, THEIR AVAILABILITY AND WHETHER THEIR PRICE IS VOLATILE

➤ *IHB Plc*

The basic activities of IHB Plc are the acquisition, management, assessment and sale of shareholdings in other entities. In this respect no raw materials or materials can be discussed.

IHB Plc acquires interests in other entities without limitation as to sector or location. Furthermore, IHB Plc can acquire interests in existing companies, as well as invest in new entities.

➤ *IHB Plc Group companies*

MARITIME BUSINESS

Shipbuilding

For the construction of a ship more 10 000 articles of materials and equipment are used.

The main raw and other materials in shipbuilding are metals – plate and profile steel, pipes, various steel configurations, copper cables, ship dyes, plating, insulation, furniture, etc. The equipment includes a main generator, diesel generators, screw propellers, steering gear, heat exchangers, compressors, pumps, cranes, mechanical and life-saving equipment, etc.

After the accession of the Republic of Bulgaria to the European Union the suppliers have been divided into three main groups – suppliers from member states of the EU, suppliers from non EU member states, and local suppliers. Most of the equipment is delivered from EU member states – main engines, diesel generators, screw propellers, steering gear, heat exchangers, compressors, pumps, cranes, mechanical and life-saving equipment, etc., as well as a small part of the materials such as plate and profile steel, pipes, etc.



From outside the EU the supplied goods are the main engines of ships with numbers 516, 515, 458, and 459, the diesel generators for ships with numbers 516, 515, and 457, the bulk of the plate and profile steel, as well as the GOST standard pipes. In view of world-wide boom of shipbuilding, the supplies of key equipment (especially main engines), mainly from countries outside the EU (mainly Russia) have an especially high-risk factor.

Local suppliers deliver articles in accordance with the project documentation of Bulyard Shipbuilding Industry EAD – hatch lids, boilers, moulds and forged items, pressurized vessels, part of the plate and profile steel, and other articles bought from retail stores.

The trend towards increase of the material and equipment prices by 3 to 5 percent per year continues. On the positive side, ship prices are also rising due to the boom in the sector. The prices of plate steel, profiles, and pipes have risen by about 5 to 10%. This increase may be avoided only when building ships outside the EU, for which an inward processing in the form of a system of suspension has been established, because the export quotas are not applied for these countries. EU suppliers continue to maintain traditionally high steel prices.

With a view to compensate the annual inflation price increase, Bulyard Shipbuilding Industry EAD aims during the negotiation process to combine the deliveries for a certain ships with the ones for the next ships to be built according to the construction schedules. This allows for a lower price level to be maintained because of the higher supply volumes and retention of these prices for the future supplies.

Bulyard Shipbuilding Industry AD concludes its shipbuilding contracts in a ratio of euro/US dollar currencies corresponding to the ratio in which the main materials and equipment are negotiated for each new ship. For the ships to be built under the license of IHI Marine United Inc., Japan, the package of materials /excluding steel / has been negotiated in advance with a fixed price for the first 6 ships. The prices are in Japanese yens.

MACHINE BUILDING

Metal Cutting Machines

The organization for securing the operations of the companies Mashstroy AD, ZMM Sliven AD, and ZMM Nova Zagora AD with the necessary raw materials and other goods, is carried out on the basis of approved procedures for the operations of the company according to the ISO 9001:2000 system and the regulations of ZMM Bulgaria Holding.

The main raw and other material of key importance of the operations are:

- Cast iron moulds – there are alternative suppliers, apart from some large components (5 000 mm and 6 000 mm components). There is an increase of prices due to the rise of the prices of key raw and other materials, electric power, etc.;
- Steels – different types – standard steel 45, low and high carbon steel alloys used for cogwheels and shafts. The supplies come mainly from Russia and Ukraine – countries outside the European Union. Prices are volatile and continuously rising. Due to the imposed export duties and quotas for EU imports, there are certain difficulties with supplies from these countries – irregularity of deliveries and price increases. Options for imports from Turkey are being investigated into, but this again poses problem with EU quotas and quality;
- High precision bearings, imported from Germany and Sweden – there are alternative suppliers and the prices rise on an annual basis at least up to the level of inflation;
- Assembled articles and cooperated supplies – engines, assembly suppliers. There prices increase due to the rising prices of raw and other materials, electric power, etc. The cogwheels used for metal cutting machines are manufactured by ZMM Nova Zagora AD and represent the main product of the company. Mashstroy AD also uses cogwheels manufactured by its own plants.

About 60% of the supplies come from direct manufacturers, about 10% from intermediaries, and about 30% from commercial companies.



In 2006 prices were extremely dynamic. The tendency toward price increases was palpable.

The highest price increases were noted for steels - 15-20%, water glass - 20%, quartz sand - 35%, bentonite – 40%, treacle – 10%. There is a steady and continuous increase of the price of scrap cast iron with no signs of change in the trend – from 420-430 BGN/t in December 2006 to 460-485 BGN/t in March 2007. Lacquers, fuels, and tools have also become more expensive. All these result in increased production costs of the articles.

Metal Founding

The main raw and other materials used by Leyarmach AD are metals – cast iron, resin – furan resin and resin catalyst, sand, shamoto, thermal clays, dyes, ferroalloys, fuels, padding mass and modifier, coke, and other metals.

The main supplier of these materials are Bulgarian. Only coke was supplied through import in 2006 – from the Czech Republic. In 2007 these supplies will remain the same.

The company faces greatest difficulties with scrap supplies. The reasons are several: the shortage of cast iron scrap in the country, the bad quality of the cast iron scrap available and the requirements of suppliers for payment upon delivery. The quality of the moulds depends on the quality of the scrap. In order to reduce its dependence on scrap in 2007 Leyarmach AD developed a scheme for manufacture of moulds with a high percentage of new cast iron /up to about 55%/.

Electric Machinery

The raw and other materials of key importance for the production process of Elprom ZEM AD are: ferrous metals – steel, electrotechnical cold rolled, thin plates, double lacquer (dynamo steel model 2212 under GOST 1427.2-83), corrugated iron, thin sheet and thick sheet iron, cast iron moulds; non-ferrous metals – copper conductors, copper splints, aluminium alloys; power insulation materials (all kinds of insulation bands, glass textolyte, impregnation lacquer, styrol coating, dyes, etc.); rolling bearings (roller and ball bearings).

In 2006 active measures were taken searching for new suppliers in order to avoid the dependence on a single supplier, both in financial and production terms.

The company is not dependent on its suppliers due to the availability of alternative suppliers in the internal and external markets, with the exclusion of insulation materials.

FURNITURE PRODUCTION

The main raw materials in the production process of Augusta Mebel AD are solid wood and wood panels. Wood is supplied raw, in the form of beams, and is drying ovens. The materials used are furniture casing and edges of solid wood, chemicals – dyes, lacquers, and glues, and packaging materials – corrugated cardboard and craft paper. 99% of the suppliers are direct producers.

Veneer and MDF are imported and there are no supply and availability problems. Solid wood - poplar, conifer, and HDF is supplied by Bulgarian producers. There are no supply or availability problems.

The prices of the raw and other materials are not steady. The trend is toward an increase of material prices. In 2007 the increase is between 15 and 30%.

6.8 DESCRIPTION OF MARKETING CHANNELS AND SPECIAL SALE METHODS

- *IHB Plc*



IHB Plc uses one of the following methods to sell shares:

- Direct negotiations with investors;
- Intermediation of investment agents.

Various payments methods are used for the deals with shares of other companies – delivery upon payment or payment in instalments.

➤ *IHB Plc Group companies*

MARITIME BUSINESS

Shipbuilding and Ship Repair

Bulyard Shipbuilding Industry EAD uses two main channels for conclusion of contracts for shipbuilding and ship repair – direct negotiations with ship owners or using the intermediation services of brokers.

Bulyard Shipbuilding Industry EAD takes parts in procurement tenders for the military sector as a sub-contractor of the French company ARMARIS, participant in the special public procurement order for building of corvettes for the Naval Forces of the Republic of Bulgaria.

The standard practice in the shipbuilding industry is that payments under shipbuilding contracts should be made in advance instalments by the ship owners, secured by the builder. The number of advance payments is negotiated between the parties. The instalments are tied to the construction stages.

Bank and/or corporate guarantees issued to the benefit of the ship owners are used to secure the advance payments, as well as all other lawful collateral acceptable for both parties to the shipbuilding contract.

When building ships for companies associated with the shareholders, lighter security is accepted - promissory notes, pledge of goods, materials, marine mortgages.

Bank and corporate guarantees and transfer of ownership at an earlier stage have been negotiated with Navigation Maritime Bulgare. The payments are made in euros and US dollars.

Classification and Certification

Bulgarian Register of Shipping AD negotiates directly with ship owners and manager companies /regarding ship management /. The company attracts inspection orders also through contracts for mutual supersession with other registers. The Register uses agents as well.

MACHINE BUILDING

Metal Cutting Machines and Metal Casting

The commercial operations of the machine building companies in the structure of IHB Plc are mainly performed by ZMM Bulgaria Holding AD. The main sales channels for the production are:

- Sales to specialized commercial companies /distributors/ – 95% relative share of the sales;
- Sales to end consumers.

The traditional payment methods are advance payments prior to delivery and up to 30-day deferred payments.

The companies of the Group participate in specialized international fairs and in the Plovdiv International Technical Fair every year.



Leyarmach works mainly for the companies in the group of ZMM Bulgaria Holding. After commissioning of the new kilns it will rely mainly on direct contacts with local consumers and relations with foreign consumers.

Electric Machinery

The commercial operations of Elprom ZEM AD are mainly based on the direct contact principle (95%) and in rarer cases – on intermediaries (5%).

Elprom ZEM AD cooperates with Bulgarian export companies such as Electroimpex AD, Machinoexport AD, etc. The company takes parts in procurement tenders for supply of equipment in Bulgaria and abroad. Elprom AD participates in specialized fairs.

The company does not use any special sales methods.

The standard practices of the company is to have the sales secured through advance payments or letters of credit and to manufacture products only after an order assignment. The following payment schemes are used:

- For products requiring a short-term production cycle /up to 1 month / - 50% advance payment and 50% final payment upon notice of delivery;
- For products requiring a long production cycle /over 1 month/ - 10-15% advance payment and payments at every completed production stage, depending on the contract signed with the client.

FURNITURE PRODUCTION

The main marketing and distribution channels of Augusta Mebel AD are design companies, intermediaries, and direct contacts.

Over the past years Augusta Mebel AD has been working mostly with furniture design companies– Castlebrook, Ireland and Base, France.

The intermediaries of Augusta Mebel AD are wholesale merchants of furniture and raw and other materials for the furniture industry – Lessoimpex, Bulgaria; Holroyd & Jones, Ireland; Furniture Plus – USA; Gillos, Greece; etc. Cooperation with these companies extend only to intermediation for furniture sales, but also for supply of high quality raw and other materials for the production process.

Direct contacts are established mainly with retail merchants from Bulgaria and abroad – retails chains for furniture and furniture stores.

The company has a company store – Augusta Furniture Store for retails sales in the region of Shoumen.

Sales are executed in compliance with the contractual terms – advance payments and payments upon deliver. The warranty periods range from one to five years after the date of purchase or the delivery date – for hotel furnishing.

Traditionally, Augusta Mebel AD takes part in the furniture fair IMM – Cologne with its own showroom, as well as in specialized fairs in Bulgaria.

RIVER CRUISES

Dounav Tours AD and its subsidiaries offer their own ships for rent to charter agents who secure tourists for the ships. Dounav Tours AD negotiates long term – over 5 year- contracts and collects the charter rent which is its main source of revenues. The company takes care of the technical maintenance of the ships and is responsible for their technical condition, for insurance, and for the ship crew and hotel staff.

The prices under the charter contracts are renegotiated every year with additional agreements to the framework contracts, and payments under the contracts are effected regularly – on a monthly basis.





7 ORGANIZATIONAL STRUCTURE

IHB Plc is a holding company and includes other entities in its portfolio. Depending on the interests held by IHB Plc in their capitals, these companies are classified as follows:

- Subsidiaries (s) – companies where IHB Plc has control. Control exists where the Company is able, directly or indirectly, to direct the financial and operating policies of the subsidiaries, in order to benefit from their operations;
- Associates (as) – companies where IHB Plc has significant influence but not control on their financial and operating policies;
- Entities with insignificant interest (portfolio investments) (pi) – companies where IHB Plc does not exercise influence;
- Subsidiaries of the subsidiary companies (ss) – companies owned by and/or controlled by any IHB Plc subsidiary, i.e. IHB Plc has indirect control over them;
- Subsidiaries of the associates (sas) - companies owned by and/ or controlled by any IHB Plc associate.

OPERATIONS OF IHB PLC PORTFOLIO COMPANIES

As at 31 August 2005 IHB Plc portfolio, directly and through related parties, comprises 26 entities as follows: 9 subsidiaries, 3 associates, 15 subsidiaries of subsidiary companies and associates and 1 entity – portfolio investment.

➤ *Maritime business*





Shipbuilding and ship repair

BULYARD AD /as/

Bulyard AD was established in 2003 by IHB Plc, Dockyard Odessoss AD, Bulcom Limited and Electromachinery Holding AD. As at establishment date Dockyard Odessoss AD held 25% of the company's capital. In July 2005 and July 2006 Dockyard Odessoss AD sold 15% and 10% of its interest in Bulyard AD to IHB Plc. As at present date IHB Plc holds 61.50% of the capital of Bulyard Shipbuilding Industry EAD.

At the beginning of 2004 Bulyard AD and Navigation Maritime Bulgare EAD established Bulyard Shipbuilding Industry AD. Since March 2007 Bulyard AD owns 100% of the capital of Bulyard Shipbuilding Industry EAD.

BULYARD SHIPBUILDING INDUSTRY EAD /sas/

Bulyard Shipbuilding Industry EAD holds and manages the assets of the former Varna Shipyard.

The core operations include:

- Shipbuilding and building of all other types of vessels;
- Ship repair and reconstruction;
- Trade in ships and vessels.

Ship repair and port operations

DOCKYARD PORT - BOURGAS AD /s/

The company was established in 1973. The scope of activities of the company includes:

- Ship repair;
- Repairs and maintenance of coast facilities and vessels;
- Welding, pipe, mechanical, electrical and technical and carpenter works, repairs of boilers, refrigeration and cooling facilities;
- Port operations.

Until 2004 the company carried out only ship repair activity. As of November 2004 the company has a certificate for the operational fitness of the port, updated on 20 February 2007. It is a port for public transport of regional importance in compliance with the Law on Maritime Space, Inland Waterways and Ports of the Republic of Bulgaria and is intended for handling of harmless general and bulk freights of plant origin.

The company was registered as a port operator on 28 May 2005 in the Port Operator Register of the Republic of Bulgaria for the provision of port services at Dockyard Port – Bourgas.

The port is located on a terrain of 51 dca, owned by Dockyard Port - Bourgas AD. The company has a total covered warehouse area of over 10 000 sq. m. with possibility for temporary storage and storage under customs surveillance. It takes ships with wade depth up to 7.90 m. The pier wall of the port is 200 linear metres long. In 2006 significant investments were made in hoisting and hauling equipment. In August 2007 Dockyard Port - Bourgas AD sold its floating dock and terminated ship repair operations. Since August 2007 port operations form the core activity of the company.



Port operations

ODESSOS PBM AD /as/

The basic activities of Odessos PBM AD include port services and accompanying activities from/on ships and land transport vehicles, loading of goods in containers and unloading them, storage and handling of freights.

The company is registered as a port operator in the Port Operator Register in the Republic of Bulgaria for provision of port services at port Odessos PBM – Varna.

As of May 2005 the company has a certificate for the operational fitness of port Odessos PBM – Varna for public transport of regional importance intended for handling general, bulk freights and containers. Port Odessos PBM – Varna is registered in the Register of Ports of the Republic of Bulgaria.

The port is located on a terrain of 155 deca (former 2nd region of Varna Shipyard), owned by Odessos PBM AD. The company has more than 10 000 sq. m. covered warehouse area with possibility for temporary storage and storage under customs surveillance. It takes ships with wade depth of up to 5.8 m. The pier wall is 500 linear metres long.

Classification and certification

MARITIME HOLDING AD /s/

The company was established in 2001 with scope of activities including:

- Acquisition, management, assessment and sale of interests in Bulgarian and foreign companies;
- Acquisition, assessment and sale of patents, granting of licenses for the use of patents to companies in which the Holding has interests;
- Financing of the companies in which the Holding has interests;
- Technical consultations regarding ships, facilities and materials subject to inspection;
- Inspection of ships and freights;
- Commercial representation and intermediation;
- Consulting services.

In October 2001 the company acquired 80% of the capital of Bulgarian Register of Shipping AD, Varna. As of 31 December 2006 Maritime Holding AD owns 100% of the capital of Bulgarian Register of Shipping AD.

BULGARIAN REGISTER OF SHIPPING AD /ss/

Bulgarian Register of Shipping AD carries out technical supervision and classification, including:

- Approval of technical documentation for sea and river shipbuilding and ship repair, drill platforms and containers;
- Admittance of companies and laboratories which produce, repair and test constructions subject to supervision by Bulgarian Register of Shipping AD, furniture, materials and items in the sea industry and industry;
- Supervision of shipbuilding and refurbishment, drill platforms and containers;
- Certification of ships and containers in operation;
- Supervision of the production of materials and items intended for shipbuilding and ship repair, subject to supervision by Bulgarian Register of Shipping AD;
- Supervision and certification of newly built ships, ships in operation, materials and items in accordance with agreements for mutual replacement with foreign classification organizations;

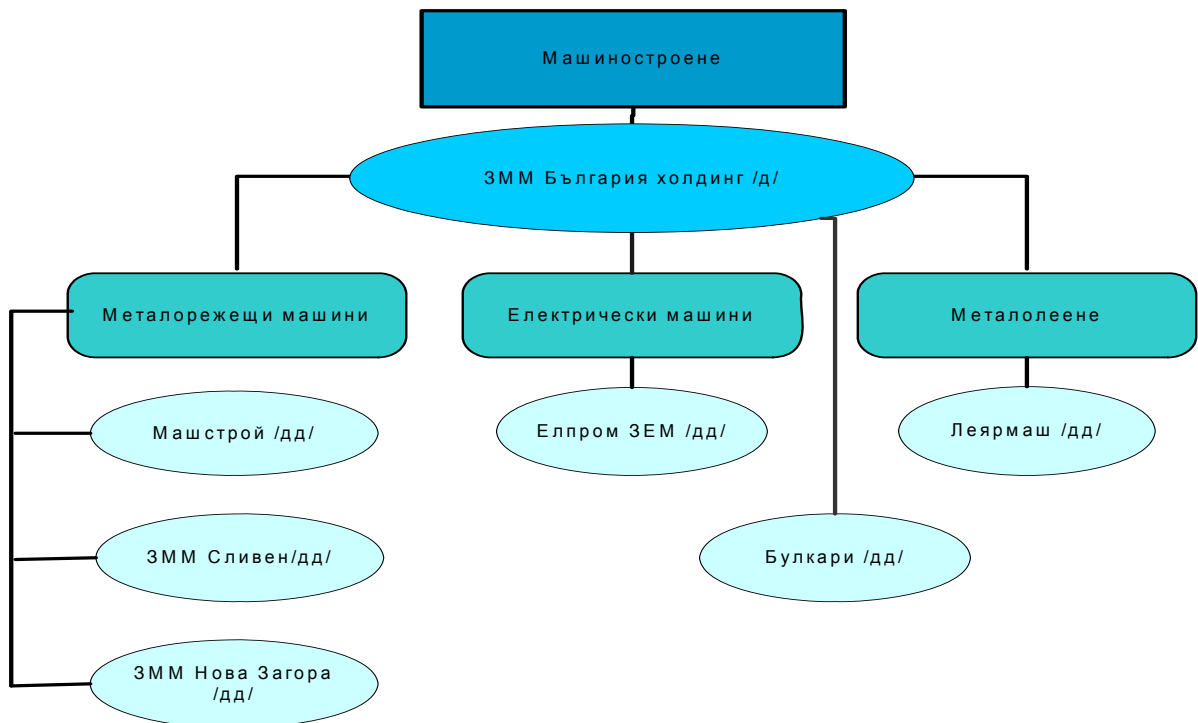


- Conventional inspections in accordance with agreements for recognition by maritime administrations;
- Technical consultations and expert opinions;
- Consultations related to introduction and implementation of quality management systems and assistance for certification under the requirements of the ISO 9000 standards;
- Certification under the requirements of ISM Code and ISPS Code.

VIK-SANDVIK-IHB DESIGN AD /as/

The company was registered in Varna in August 2007 in partnership with Vik Sandvik, Norway. The scope of activity of VIK-Sandvik-IHB DESIGN AD is ship design. The capital of the company amounts to BGN 250 000 distributed into 250 000 shares, each with a nominal value of BGN 1. Each shareholder participates with 50% of the voting shares. Over 30 highly qualified ship designers will work at VIK-Sandvik-IHB DESIGN AD.

➤ *Machine building*



ZMM BULGARIA HOLDING AD /s/

The company was established in 2001 under the name of ZMM Bulgaria Holding AD with the idea to unite four companies producing metal cutting machines – ZMM Sliven AD, Mashstroy AD, Mashinostroene AD and Leyarmach AD. The scope of activity of ZMM Bulgaria Holding AD includes production and sales of metal cutting machines, commercial representation and intermediation, warehouse activities, as well as any other activity not forbidden by law.

As at present date the company owns 94.10% of the capital of ZMM Sliven AD, 80.81% of the capital of Mashstroy AD, 93.57% of the capital of ZMM Nova Zagora AD, 79.71% of the capital of Elprom ZEM AD and



83.87% of the capital of Leyarmach AD /within the group the control over Leyarmach AD is 100%, and the remaining 16.13% is held by Mashstroy AD and ZMM Sliven AD/.

In 2006 there was established **Bulkari /ss/**, a company owned by ZMM Bulgaria Holding AD, with the purpose of participation in the privatization of Balkancar-Sredets AD. The offer of Bulkari EAD was classified 2nd and did not win the tender.

Metal cutting machines

ZMM SLIVEN AD /ss/

ZMM Sliven AD was established in 1971. The company has mastered and offers on the market the following key groups of machines:

- Universal lathes with maximum processed diameter of the processed item between 300 mm and 1250 mm and distance between the centres between 750 mm and 6000 mm;
- CNC lathes;
- Column drilling machines.

ZMM Sliven is a leading lathe producer in Eastern Europe. By the end of 2006 the company produced and sold over 55 000 machines. The production is sold in over 40 countries worldwide.

MASHSTROY AD /ss/

Mashstroy AD was established in 1947 based on the then existing small artisan metal processing workshops. The key products manufactured by the company are:

- Universal lathes and their type variety and modifications;
- CNC lathes;
- Digital machines based on universal lathes: C560BE, C630BE, C730BE, C830BE;
- CT lathes with CPC: CT251M with FANUC, SIEMENS, HEIDENHAIN systems;
- Column drilling machines.

Mashstroy AD is one of the leading lathe producers in Eastern Europe. By the end of 2006 the company produced and sold over 60 000 machines. The production is sold in over 50 countries worldwide.

ZMM NOVA ZAGORA AD /ss/

ZMM Nova Zagora AD was established in 1970.

At present the basic activity of the company is design and production of metal cutting machines, units and details for metal cutting and wood processing machines, technological lines, agricultural machines, machines and items for the general machine building, spare parts, repairs and services.

The company manufactures:

- Rotation details;
- Metal cutting machine units;
- Strip cutting machines: manual, semi-automatic and fully automated with CNC control;
- Units and machines input in wood processing complexes;
- Crushers PZ5; PZ7; PZ9; PZ11;
- Spare parts.

Electric machines



ELPROM ZEM AD /ss/

Elprom ZEM AD was established in 1950 and is a part of the former giant Vasil Kolarov.

Elprom ZEM designs, produces, delivers, installs and repairs the following electric machines:

- Asynchronous low voltage electric engines up to 660 V, with rotor connected in short-circuit, power between 7,5 and 315 kW and frequencies 50 and 60 Hz;
- Asynchronous high voltage electric engines 3 and 6 кV, power between 200 and 1000 kW, rotation frequency 1500, 1000, 750, 600 and 500 rev/min.;
- Special asynchronous high voltage electric engines;
- Vertical asynchronous electric engines;
- Synchronous electric engines;
- Hydro generators, horizontal and vertical with power up to 200 MVA for various voltages and rotation frequencies.

Elprom ZEM AD is the only producer of hydro-generators for water power plants and large non-standard electric machines in the country.

Metal casting

LEYARMACH AS /ss/

Leyarmach AD, Sofia is a joint-stock company established in 2001 based on separated production capacities, which have not suspended their operations since their establishment to date. The foundry was built in 1958 and underwent two major reconstructions – in 1970 and in 1989, as well as modernization of the smelter section in 2002.

The company produces a wide variety of casts, which represent full range of components for metal cutting machines, bodies, supports, columns, rear seats, foundations, gear boxes, etc.

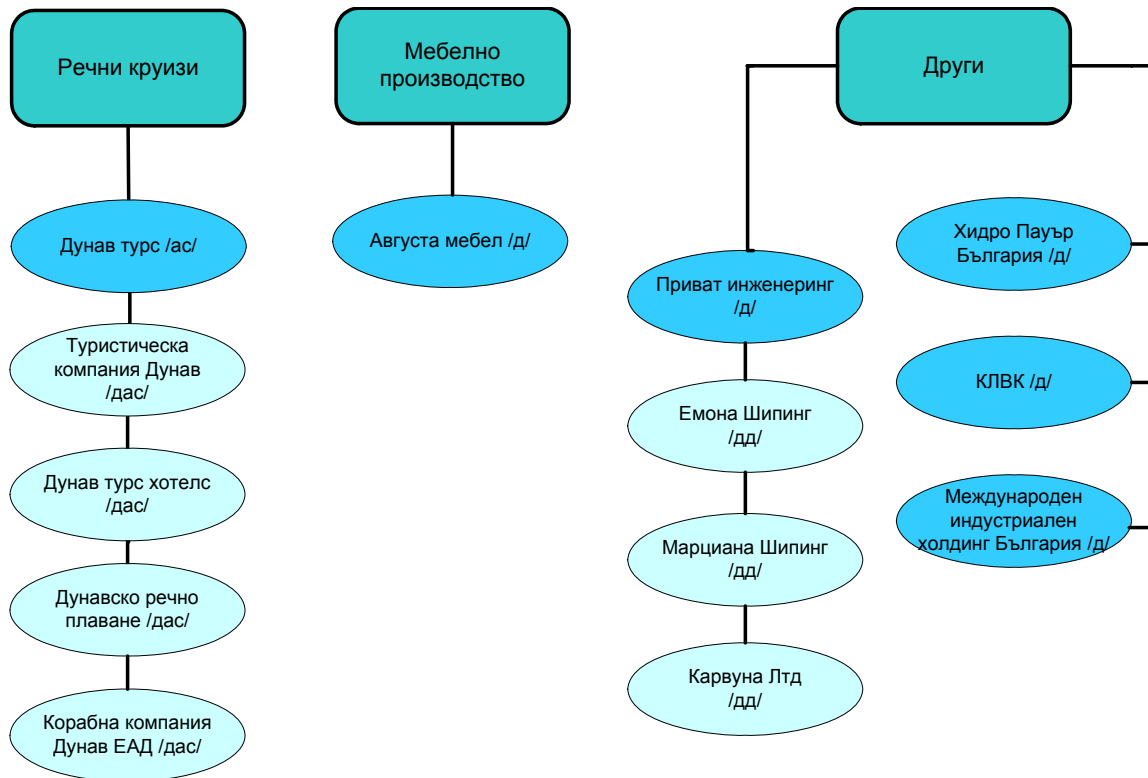
Leyarmach AD is specialized in the production of high quality casts:

- Grey cast iron moulds with a unit weight of 20 to 10 000 kg and casts of spheroidal-graphite cast iron with unit weight of up to 5 000 kg, with high level of complexity;
- Casts from modified grey cast irons;
- Casts from spheroidal-graphite cast irons.

Leyarmach AD issues cast quality certificates and avails with own model laboratory.



➤ *River cruises, furniture production and others*



➤ *River cruises*

DOUNAV TOURS AD /as/

Dounav Tours AD is a joint investment of IHB Plc and Uniontours.

Dounav Tours AD and its subsidiaries own 4 four-star and 1 five-star river passenger ships:

- Rousse - 210 seats, manufactured in 1983 in the Netherlands, renovated in 2001;
- Sofia - 210 seats, manufactured in 1983 in the Netherlands, renovated in 2001;
- Rousse Prestige - 161 seats, manufactured in 2004 in the Netherlands, through Tourist Company Dounav EAD;
- Heinrich Heine – 108 seats, manufactured in 1991, renovated in 2004-2005, through Tourist Company Dounav EAD;
- Elegant Lady – five-star, 128 seats, manufactured in 2003, through Shipping Company Dounav EAD.

In March 2007 Dounav Tours AD purchased the Balkan Yacht, used by the former president Todor Zhivkov, from the Bulgarian State. The yacht is in a process of renovation.

The company also offers own cruises along Rhein - Main - the Danube River and Moselle, usually out of the main ship season, as well as during Christmas, New Year and Easter days.

The company has its own pontoon on the Danube River, suitable for the quaying of all types of river ships, including passenger ones and welcomes over 250 ships per year.



Dounav Tours AD is majority owner of Dounav Tours Hotels AD, Tourist Company Dounav AD, Dounav River Shipping AD and Shipping Company Dounav EAD.

DOUNAV TOURS HOTELS AD /sas/

Dounav Tours Hotels AD was established in 2000.

The company's scope of activities includes commercial representation and intermediation, consulting services, hotel services, intermediation in informing and job recruitment, tour operator activities, ship agency and ship supplies, logistics, forwarding activities, restaurant operation, foreign economic activities, sales of airplane tickets and other activities.

The company:

- Renders tourist services to foreign ships in Bulgaria;
- Provides ship agency;
- Provides tourist agency, member of IATA;
- Sells airplane and bus tickets;
- Organizes package programs for excursions in the country and abroad;
- Provides tourist guides.

TOURIST COMPANY DOUNAV EAD /sas/

Tourist Company Dounav EAD was established in January 2003.

The company's scope of activities includes hotel operation, restaurant operation, foreign economic activities, operation of ships, sales of goods - imported and domestically produced, organization of excursions in the country and abroad and other activities related to international and domestic tourism.

The company is the owner of the Rouse Prestige and Heinrich Heine Ships.

DOUNAV RIVER SHIPPING AD /sas/

Dounav River Shipping AD was established in March 2005.

The company has the following scope of activities: commercial shipping and the related foreign and domestic trade, production, technical, intermediation activities, investment and engineering activities, etc.

The company was established to participate in the privatization of Bulgarian River Shipping AD.

SHIPPING COMPANY DOUNAV EAD /sas/

Shipping Company Dounav EAD was established in November 2006

The company has the following scope of activities: hotel operation, restaurant operation, foreign economic activities, operation of ships, sales of goods - imported and domestically produced, organization of excursions in the country and abroad, consumer and public utility, advertising, sports, cultural and additional services related to international and domestic tourism.

The company is the owner of the Elegant Lady Ship.



AUGUSTA MEBEL AD /s/

Augusta Mebel AD manufactures furniture of various types of solid wood (oak, softwood, lime-tree) and MDF, coated with natural veneers:

- Home furniture – bedrooms, sitting rooms, entrance halls;
- Children's rooms furniture;
- Hotel furniture;
- Office furniture.

The production of the company is intended for export. Its customers are retailers, wholesalers, hotels, designers and individual customers. Augusta Mebel has long-term relations and exports its products to companies in Great Britain, USA, Germany, Greece, France, Ireland, Uzbekistan, etc.

➤ *Others*

PRIVAT ENGINEERING AD /s/

The company was established in 1998 with basic scope of activity including engineering in the country and abroad, licenses, know-how, technology transfer, commercial activities in the country and abroad, as well as any other activity not forbidden by law. The key activities carried out by the company are insurance and reinsurance intermediation and consulting services.

In June 2000 Privat Engineering AD expanded its object of activities and commenced offering insurance and reinsurance intermediation. The company has a license to operate as insurance broker No 75/30 May 2000.

In June 2003 Privat Engineering AD acquired real estate of approximately 92 decares in the Boudzhaka Area near Sozopol. At the end of December 2005 Privat Engineering AD sold this development with the completed infrastructure and terminated its investments in real estates.

In February 2006 Privat Engineering AD established two subsidiaries:

EMONA SHIPPING Ltd /ss/ and **MARCIANA SHIPPING Ltd /ss/**, which reached an agreement on the building of two 9 800-ton multi-purpose ships at Bulyard Shipbuilding Industry AD. The vessels are intended for unrestricted region of navigation and shipping of bulk freights and containers. With the building of these vessels the Group will also undertake maritime transport, which belongs to the Maritime Business category.

In August 2007 Privat Engineering AD established another subsidiary:

Karvuna Ltd. /ss/, Marshall Islands, which agreed the building of one 21 000-ton multi-purpose ship at Bulyard Shipbuilding Industry AD. The ship is intended for unrestricted region of navigation and shipping of bulk freights. The ship is to be delivered by December 2009.

KLVK AD /s/

The company was established in 2001 with basic scope of activities including commercial and production operations, purchase and production of goods for sale, representation and agency, foreign economic activities, marketing, as well as any other activity, not forbidden by law.

The activities are related to the organization, consultations and intermediation for companies' participation in international exhibitions.

In July 2004 KLVK AD acquired 75% notional parts of real estate of 94 dca, located in Shkorpilovtsi – Izgrev Horizont Resort Complex. In April 2005 KLVK AD sold this real estate and terminated investments in real estates.



HYDRO POWER BULGARIA AD /s/

The company was established in April 2000 with basic scope of activities including commercial representation and intermediation, consulting services, import and export of goods, as well as any other activity, not forbidden by law.

Hydro Power Bulgaria AD has worked on a project for the construction of water power plants with unit capacity of less than 5 MW. It develops consulting.

INTERNATIONAL INDUSTRIAL HOLDING BULGARIA AG /s/

The company was established in 2001 in Zug, Switzerland. Its basic scope of activities includes acquisition, management and expropriation of share participations in domestic and foreign companies of any kind and particularly companies in the sphere of trade, services and production in Bulgaria; provision of guarantees to related entities; participation in other companies; acquisition, management and expropriation of subjective rights on intangible benefits and licenses; acquisition, management and expropriation of rights on real estates; granting of loans, as well as provision of guarantees and other collaterals. The company gains income mainly from interests in other entities and consulting.

DATA ON IHB PLC SUBSIDIARIES, INCLUDING NAME, SEAT AND ADDRESS OF MANAGEMENT, SCOPE OF ACTIVITIES, COUNTRY WHERE THE SUBSIDIARY IS REGISTERED, SHAREHOLDING IN THE SUBSIDIARY AND PERCENTAGE OF THE VOTES IN THE GENERAL MEETING OF THE COMPANY, IF OTHER THAN THE NUMBER OF SHARES HELD

As at 30 June 2007 IHB Plc has 9 subsidiaries:

BULYARD AD

- a/ Seat and address of management: 47 Vasil Levski Boulevard, Sofia
- b/ Scope of activities: Shipbuilding, ship repair, commercial navigation, trade, representation, intermediation and agency, foreign economic activities, marketing, consulting and design activities as well as any other activity not forbidden by law
- c/ Number and batch of entry in the Commercial Register: Company file N 12253/2003, batch No 79959, volume 952, reg. 131 of Sofia City Court
- d/ BULSTAT code: 131169490
- e/ Tax number: 1222135687
- f/ Capital: BGN 37 292 980 /thirty-seven million two hundred ninety-two nine hundred and eighty/

g/ Number of directly held shares and their percentage in the votes of the general meeting of the shareholders of the company:

22 935 183 shares of BGN 1 each, i.e. 61.50% of the number of votes in the general meeting of the shareholders



DOCKYARD PORT - BOURGAS AD

- a/ Seat and address of management: 3 Industrialna Street, Bourgas
- b/ Scope of activities: Repairs of Bulgarian and foreign ships, production of machines, facilities, spare parts and non-standard equipment for ships and for industrial needs for Bulgarian and foreign companies, repairs and maintenance of coast facilities and vessels, port activities, as well as other activities not forbidden by law
- c/ Number and batch of entry into the Commercial Register: Company file N 3203/92, volume 1, reg. 17, page 74 of Bourgas District Court
- d/ BULSTAT code: IO 102003925
- e/ Tax number: 1021094451
- f/ Capital: BGN 135 440 /one hundred thirty five thousand four hundred and forty/
- g/ Number of directly held shares and their percentage in the votes of the general meeting of the shareholders of the company: 124 252 shares of BGN 1 each, i.e. 91.74% of the number of votes in the general meeting of the shareholders

MARITIME HOLDING AD

- a/ Seat and address of management: 92 General Kolev Street, Varna
- b/ Scope of activities: Acquisition, assessment and sale of interests in Bulgarian and foreign companies, acquisition, assessment and sale of patents, ceding of licenses for the use of patents to the companies in which the holding owns interests; financing of the companies in which the holding owns interests; technical consultations about ships, facilities and materials, subject to review; inspection of ships and freights; commercial representation and intermediation; consulting services; import and export of goods
- b/ Number and batch of entry into the Commercial Register: Company file N 2038/2001, batch No 49, volume 230, page 194 of Varna District Court
- d/ BULSTAT code: IO 103618451
- e/ Tax number: 1033145174
- f/ Capital: BGN 262 000 /two hundred and sixty two thousand/
- g/ Number of directly held shares and their percentage in the votes of the general meeting of the shareholders of the company: 159 942 shares of BGN 1 each, i.e. 61% of the number of votes in the general meeting of the shareholders



ZMM BULGARIA HOLDING AD

- a/ Seat and address of management: 47 Vasil Levski Boulevard, Municipality of Sredets, Sofia
- b/ Scope of activities: Production of goods in the field of machine building and the accompanying industrial productions, respectively sales of such goods, commercial representation and intermediation; warehousing, acquisition, management, assessment and sale of interests in Bulgarian and foreign entities; acquisition, assessment and sale of patents, ceding of licenses for the use of patents to the companies in which the holding owns interests; financing of the companies in which the holding owns interest; any other activity not forbidden by law
- c/ Number and batch of entry into the Commercial Register: Company file N 2018/2001, batch No 60700, volume 681, reg. I, page 21 of Sofia City Court
- d/ BULSTAT code: 130489690
- e/ Tax number: 1220147343
- f/ Capital: BGN 5 592 000 /five million five hundred ninety-two thousand/
- g/ Number of directly held shares and their percentage in the votes of the general meeting of the shareholders of the company: 5 591 900 shares of BGN 1 each, i.e. 99.998% of the number of votes in the general meeting of the shareholders
- h/ Number of shares held through a related party and their percentage in the votes in the general meeting of the company: 100 shares of BGN 1 each, i.e. 0.002% of the number of votes in the general meeting of the shareholders

AUGUSTA MEBEL AD

- a/ Seat and address of management: 21 Madara Boulevard, Shoumen
- b/ Scope of activities: Production of stylish furniture of solid beech, oak, and softwood; tiles of wooden particles and natural veneers; trade in the country and abroad, as well as any other activity not forbidden by law
- c/ Number and batch of entry into the Commercial Register: Company file N 160/93, batch No 160, volume 4, reg. 167 of Shoumen District Court
- d/ BULSTAT code: IO 837066486
- e/ Tax number: 1270010101
- f/ Capital: BGN 814 815 /eight hundred and fourteen thousand eight hundred and fifteen/
- g/ Number of directly held shares and their percentage in the votes of the general meeting of the shareholders of the company:



797 362 shares of BGN 1 each, i.e. 97.86% of the number of votes in the general meeting of the shareholders

PRIVAT ENGINEERING AD

- a/ Seat and address of management: 42 D. Gruev Street, Sofia
- b/ Scope of activities: Engineering activities in the country and abroad, licenses, know-how, technology transfer, trade in the country and abroad, as well as any other activity not forbidden by law
- c/ Number and batch of entry into the Commercial Register: Company file No 3186/ 1998, batch No 46305, volume 507, reg. I, page 19 of Sofia City Court
- d/ BULSTAT code: IO 121664151
- e/ Tax number: 1221134032
- f/ Capital: BGN 3 020 000 /three million and twenty thousand/
- g/ Number of directly held shares and their percentage in the votes in the general meeting of the shareholders of the company:

2 800 000 shares of BGN 1 each, i.e. 97.22% of the number of votes in the general meeting of the shareholders

- h/ Number of shares held through a related party and their percentage in the votes of the general meeting of the company:

220 000 shares of BGN 1 each, i.e. 7.28% of the number of votes in the general meeting of the shareholders

HYDRO POWER BULGARIA AD

- a/ Seat and address of management: 47 Vasil Levski Boulevard, Sofia
- b/ Scope of activities: Commercial representation and intermediation, consulting services, import and export of goods, as well as any other activity not forbidden by law
- c/ Number and batch of entry into the Commercial Register: Company file N 5388/2000, batch No 55910, volume 607, reg. I, page 71 of Sofia City Court
- d/ BULSTAT code: 130261651
- e/ Tax number: 1220138417
- f/ Capital: BGN 50 000 /fifty thousand/
- g/ Number of directly held shares and percentage of the votes in the general meeting of the company:

33 500 shares of BGN 1 each, i.e. 67% of the number of votes in the general meeting of the shareholders

- h/ Number of shares held through a related party and their percentage in the votes of the general meeting of the company:



16 500 shares of BGN 1 each, i.e. 33% of the number of votes in the general meeting of the shareholders

KLVK AD

- a/ Seat and address of management: Floor 3, 16 Ouzoundzhovska Street, Triaditza Municipality, Sofia
- b/ Scope of activities: Commercial and production activities, purchase and production of goods for resale; representation and agency; foreign economic activities; marketing, investment and design activities, as well as any other activity not forbidden by law
- c/ Number and batch of entry into the Commercial Register: Company file N 7596/ 2001, batch No 63364, volume 721, reg. I, page 17 of Sofia City Court
- d/ BULSTAT code: 130735957
- e/ Tax number: 2221166682
- f/ Capital: BGN 74 800 /seventy-four thousand eight hundred/
- g/ Number of directly held shares and their percentage in the votes in the general meeting of the shareholders of the company:
49 999 shares of BGN 1 each, i.e. 66.84% of the number of votes in the general meeting of the shareholders
- h/ Number of shares held through a related party and their percentage in the votes in the general meeting of the company:
24 801 shares of BGN 1 each, i.e. 33.16% of the number of votes in the general meeting of the shareholders

INTERNATIONAL INDUSTRIAL HOLDING BULGARIA AG

- a/ Seat and address of management: 11 Bahnhofstrasse, Zug, Switzerland
- b/ Scope of activities: Acquisition, management and expropriation of share participations in domestic and foreign companies of any kind and particularly companies in the sphere of trade, services and production in Bulgaria; provision of guarantees to related entities; participation in other companies; acquisition, management and expropriation of subjective rights on intangible benefits and licenses; acquisition, management and expropriation of rights on real estates; granting of loans, as well as provision of guarantees and other collaterals
- c/ Number and batch of entry into the Commercial Register: CH-170.3.024.781-7/29.05.2001
- d/ Capital: CHF 100 000 /one hundred thousand/
- e/ Number of directly held shares and their percentage in the votes of the general meeting of the shareholders of the company:



10 000 shares of CHF 10 each, i.e. 100 % of the number of votes in the general meeting of the shareholders

**8 PROPERTY, PRODUCTION UNITS AND EQUIPMENT****8.1. INFORMATION ABOUT EXISTING OR PLANNED SIGNIFICANT TANGIBLE NON-CURRENT ASSETS, INCLUDING LEASED PROPERTY AND ANY MATERIAL ENCUMBRANCE THEREON**➤ *IHB Plc*

No	Tangible non-current assets	2006		
		Amount BGN'000	Share, %	Growth 2006/2005, %
1	Machinery and equipment	15	15.625	650.00
2	Transport vehicles	66	68.75	(34.65)
3	Other tangible non-current assets	15	15.625	(21.05)

No	Tangible non-current assets	2005		
		Amount, BGN'000	Share, %	Growth 2005/2004, %
1	Machinery and equipment	2	1.64	(85.71)
2	Transport vehicles	101	82.79	(29.86)
3	Other tangible non-current assets	19	15.57	(24.00)
Total tangible non-current assets		122	100.00	(33.33)
Total tangible non-current assets		96	100.00	(21.31)

No	Tangible non-current assets	2004		
		Amount, BGN'000	Share, %	Growth 2004/2003, %
1	Machinery and equipment	14	7.65	(41.67)
2	Transport vehicles	144	78.69	414.29
3	Other tangible non-current assets	25	13.66	(30.56)
Total tangible non-current assets		183	100.00	(107.95)

These values indicate that tangible non-current assets represent immaterial part of the Holding's assets. The Company has no imposed limitations on the title of ownership on tangible non-current assets and there are no assets pledged as collaterals for liabilities or for other reasons.

➤ *IHB Plc Group companies*

The volume, structure and dynamics of tangible non-current assets of IHB Plc, on consolidated basis, over the last 3 financial years are presented in the tables below:

No	Tangible non-current assets	2006		
		Amount BGN'000	Share, %	Growth 2006/2005, %
1	Buildings, land, forests and perennials	29 908	53.03	3.80
2	Machinery, plant and equipment	24 067	42.68	7.56
3	Other tangible non-current assets	1 583	2.81	16.06
4	Tangible non-currents assets acquisition and liquidation costs	833	1.48	6.52
Total tangible non-current assets		56 391	100.00	5.73
No	Tangible non-current assets	2005		
		Amount BGN'000	Share, %	Growth 2006/2005, %
1	Buildings, land, forests and perennials	28 813	54.02	(9.28)
2	Machinery, plant and equipment	22 375	41.95	169.29
3	Other tangible non-current assets	1 364	2.56	20.39
4	Tangible non-currents assets acquisition and liquidation costs	782	1.47	(35.80)
Total tangible non-current assets		53 334	100.00	25.72
No	Tangible non-current assets	2004		
		Amount BGN'000	Share, %	Growth 2006/2005, %
1	Buildings, land, forests and perennials	31 762	74.87	11.65
2	Machinery, plant and equipment	8 309	19.59	6.83
3	Other tangible non-current assets	1 133	2.67	32.83
4	Tangible non-currents assets acquisition and liquidation costs	1 218	2.87	3.84
Total tangible non-current assets		42 422	100.00	10.90

Upon the initial acquisition, items of property, plant and equipment are measured at cost, which comprises the purchase price, including customs duties and non-refundable sales taxes, and all expenses required for bringing the asset to its location and working condition as required for its use intended by the Management.



The cost of self-constructed items of property, plant and equipment includes cost of materials, expenses on direct labour and the relevant pro rata portion of the indirect production expenses; expenses directly related to bringing the asset to its location and working condition for its intended use; the initial estimate of the expenses on dismantling and removal of the asset and for restoration of the surface it has been situated on.

When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenses incurred to replace a major component of an item of property, plant and equipment reported separately are capitalized. Other subsequent expenses are capitalized only if they increase the future economic benefits of the respective asset. All other costs are recognized in the income statement in the period they are incurred.

Subsequent valuation – the policy adopted by the Group for a subsequent balance sheet valuation of the land, buildings, plant and equipment is the revaluation model allowed by IAS 16 – the revalued amount is the fair value of the asset as at the date of revaluation less subsequent depreciation and any subsequent impairment losses.

Usually, fair values of land, buildings, plant and equipment are determined on the basis of market evidence through valuation performed by licensed valuers.

Land, buildings, plant and equipment are usually revalued in every 5 years. This revaluation may be carried out more frequently if their fair value changes significantly in shorter intervals.

The Group's land, buildings, plant and equipment were revalued to fair value on the basis of the valuation made by an independent licensed valuer as at 31 December 2002. Motor vehicles and other non-current assets and costs related to acquisition of tangible non-current assets are valued in the balance sheet at their cost, less all accrued depreciations and accumulated impairment losses.

The Holding's Management has decided on valuation of available tangible non-current assets by a licenced valuer at the end of 2007, the results of which will be accounted for and reported in the balance sheet as at 31 Decemebr 2007.

Part of the assets represents collaterals of the Group's **bank credits** as follows:

- Machinery, plan and equipment of the total carrying amount of BGN 4 909 thousand as at 31 December 2006, including: Augusta Mebel AD – BGN 30 thousand, ZMM Sliven AD – BGN 496 thousand, Leyarmach AD – BGN 845 thousand, Elprom ZEM AD – BGN 76 thousand, Mashstroy AD – BGN 1 644 thousand, Bulyard Shipbuilding Industry AD – BGN 1 818 thousand, etc.;
- The business of Dockyard Port-Bourgas AD, Bourgas, has been pledged in relation to a contract signed by IHB Plc and DSK Bank EAD for granting credit limit for issuance of bank guarantees and working capital financing to the Holding and/ or its Group's companies at the amount of BGN 4.5 million, up to BGN 3 million of them under the form of revolving loan;
- First mortgage and first registered pledge on machinery, plant and equipment of Bulyard Shipbuilding Industry AD of the total carrying amount of BGN 13 550 thousand as at 31 December 2006 as collateral of a syndicated revolving credit granted on 26 July 2005 to secure the issuance of bank guarantees for advance payments of customers. The credit limit amounts to EUR 12 500 thousand and USD 10 900 thousand. Its repayment date is 25 July 2009. On 27 March 2006 the credit limit was increased to EUR 12 505 thousand and USD 11 015 thousand respectively.

Dockyard Port - Bourgas AD registered pledge of a machine of carrying amount of BGN 46 thousand as at 31 December 2006 to secure a bank guarantee at the amount of BGN 12 thousand issued by Commercial Bank Allianz Bulgaria AD, under which Customs Office Bourgas was beneficiary. The guarantee term expired on 31 March 2007.

The third **corporate guarantee** of EUR 4 211 942 and USD 3 595 434, issued by IHB Plc in July 2007 as collateral of the third advance payment from Alexander Maritime Ltd – the buyer of ship with construction No 515, is secured by mortgage on immovable property of Bulyard Shipbuilding Industry AD.



The information about planned major investments is given in *Item 5.2.3* on page 31. Potential capital expenditures within the Group may arise in relation the plans described in *Item 12.3 Material plans related to operations* on page 128.

LOCATION OF THE ASSETS OF PRINCIPAL SUBSIDIARIES AND THEIR SUBSIDIARIES, PRODUCTION CAPACITIES AND LEVELS OF USE, METHODS OF STORAGE OF THEIR ASSETS AND PRODUCTS:

Bulyard Shipbuilding Industry EAD /ss/

Annual production capacity:

Limiting circumstances:

▪ **Dimensions and types of dock chambers:**

Large dock chamber - 237 x 40 x 7 m with:

One 800-ton portal crane;

Four 80-ton cranes;

Maximum size of the units in front of the large dock chamber: L-16m, B-32m, maximum weight – 750 t.

Small dock chamber - 187 x 28 x 6 m with:

One 500-ton portal crane;

Four 80-ton cranes;

Maximum size of the units in front of the small dock chamber: L-16m, B-24m, maximum weight – 450 t.

- **Number of employees** – own workers and subcontractors, hull and pipe experts and welders involved in basic production.

As to the limiting circumstances concerning production equipment and machinery, the opportunities for increased capacity are significant as at present it is carried out by one shift only, except for the sheet iron cutting out section, which functions in three shifts. The issue related to the number of employees is serious and there are certain problems even in relation to partial production organization, including two shifts /Program for training, qualification and re-qualification of the employees/, etc.

The production capacity may not be measured on the basis of the number of constructed ships as the types of ships constructed at the company have different and quite long process of construction completion – 16-21 months. In 2006 one ship was delivered, while two are at advance stages of construction and one – at an advance stage of cutting out.

Method of storage – there are no special requirements;

Location of assets – a site in Varna;

Products – shipbuilding and building of all types of vessels, ship repair and reconstruction and trade in ships and navigation vessels.

Dockyard Port-Bourgas AD /s/

Annual production capacity in 2006 – individual carrying out of the following activities:



- Ship repair – relative, considering the different number of repaired ships and types of related repair works over the years. Having in mind the company’s practical experience, it may be conditionally assumed that the annual ship repair services capacity ensures some BGN 3 500 thousand;
- Port operations – procession of 120 thousand tons of general freights;

Level of use in 2006:

- Ship repair – 99%;
- Port operations – 23%;

Annual production capacity in 2007, considering the sale of the floating dock, termination of ship repair and full focusing on port operations:

- Ship repair – BGN 2 040 thousand over the period January - July (the conditional annual capacity is reduced from BGN 3 500 thousand pro rata till the period of dock exploitation);
- Port operations – procession of 120 thousand tons of general freights and 10 thousand tons of bulk freights of plant origin;

Method of storage – there are no special requirements on assets storage; freights are to be stored in compliance with the applicable legal provisions on loading and unloading operations;

Location of assets – a site in Bourgas;

Products – until July 2007: ship repair, production of spare parts, non-standard details for ships and industrial products, maintenance of coast facilities and vessels; since August 2007 – 100% port operations – procession of harmless general and bulk freight of plant origin, customs procession and bonded warehouses.

Bulgarian Register of Shipping AD /ss/

Annual production capacity – none, due to the specifics of the company’s activity.

Limiting circumstances:

- Number of qualified inspectors;
- Recognition by the other certification organizations through bilateral mutual recognition contracts;

Method of storage – there are no special requirements;

Location of assets – three offices /in Varna, Bourgas and Rousse/;

Services – classification and certification of sea and river ships, independent construction supervision in the design and building sectors /upon obtaining relevant licenses/.

ZMM Bulgaria Holding AD /s/

Annual production capacity - the holding company carries out commercial operations.

Limiting circumstances concerning the activity: the number and qualification of merchants;

Location of assets – an office in Sofia.

Mashstroy AD /ss/

Annual production capacity – relative, considering the different types of machines offered by the company and their production cycles.



Limiting circumstances:

- Commencement of the production process after order receipt;
- Minimum possibility for production and technological cycle reduction;
- No flow of produced machines and unvaried nature of orders;
- Necessity of qualified employers.

Potential and advantages:

- Relative independence as to some casts and petty details (availability of own foundry and details workshop);
- Minimum work in shifts, except for some specific machines;
- Minimum employment of subcontractors.

Level of use – if taken as the basic type of produced machines, it may be conditionally assumed that the capacity is some 1 500 universal lathes per year, while its level of use in 2006 was 56%;

Method of storage – there are no special requirements;

Location of assets – two sites /basic in Troyan and a founder's and mechanical workshop in Oreshak/;

Products – production of universal lathes, lathes with CPU and boring machines.

ZMM Sliven AD /ss/

Annual production capacity – relative, considering the different types of machines offered by the company and their production cycles.

Limiting circumstances:

- Commencement of the production process after order receipt;
- Minimum possibility for production and technological cycle reduction;
- No flow of produced machines and unvaried nature of orders;
- Necessity of qualified employers.

Potential and advantages:

- Minimum work in shifts, except for some specific machines;
- Minimum employment of subcontractors.

Level of use – if taken as the basic type of produced machines, it may be conditionally assumed that the capacity is some 1 500 universal lathes per year, while its level of use in 2006 was 64%;

Method of storage – there are no special requirements;

Location of assets – a site in Sliven;

Products – production of universal lathes, lathes with CPU and boring machines.

ZMM Nova Zagora AD /ss/

Annual production capacity by product groups and levels of use in 2006:



Product group	Production capacity	Level of use
	(units)	(%)
Axles, shafts and gears	150 000	85
Metal cutting machine units	2 000	71
Machines	216	57
including wood processing machines	90	97
strip cutting machines	126	29
including manual and semi-automatic machines	90	37
automatic machines	36	8
Average for the company		71

Limiting circumstances:

- Commencement of the production process after order receipt;
- Minimum possibility for production and technological cycle reduction;
- No flow of produced machines and unvaried nature of orders;
- Necessity of qualified employers.

Potential and advantages:

- Minimum work in shifts, except for some specific machines;
- Minimum employment of subcontractors.

Method of storage – there are no special requirements on assets storage except for the box and shaft furnaces in the thermal workshop, which operate under uninterrupted working regime;

Location of assets – a site in Nova Zagora;

Products – production of machines, gears, units and details for equipment completion.

Leyarmach AD /ss/

Annual production capacity in 2006 – 2 500 tons of casts under one-shift working regime and 4 000 tons of casts under two-shift working regime, using one induction furnace and one cupola furnace.

Limiting circumstances:

- Unavailability of sufficient terrain;
- Availability of box equipment;
- Number and qualification of employers.

Level of capacity use in 2006 – 80% under one-shift working regime;

Annual production capacity following introduction of two new induction furnaces by the end of 2007 – 5 400 tons of casts under two-shift working regime;

Method of storage – there are no special requirements;

Location of assets – a site in Sofia;

Products – production of casts from grey and spheroidal-graphite cast irons, timber, plastic and metal cast models and mechanically processed cast iron details.



Elprom ZEM AD /ss/

Annual production capacity:

- Suite rods – 8 units;
- High voltage electric engines and hydro-generators for mini water powers plants – 24 units;
- Low voltage electric engines – 750 units;
- High voltage hydro-generators with weight of over 30 tons – 6 units.

Limiting circumstances regarding capacity use:

- Availability of orders;
- Number and qualification of employers;
- Production nature – there is no production of machines of similar types. The company is the only producer of hydro-generators in Bulgaria;

Level of capacity use in 2006:

- Suite rods – 75%;
- High voltage electric engines and hydro-generators for mini water powers plants – 34%;
- Low voltage electric engines – 67%;
- High voltage hydro-generators with weight of over 30 tons – 33%;

Method of storage – there are no special requirements on assets storage; windings are to be stored in dry premises;

Location of assets – two sites /basic in Sofia and a workshop in Zamfirovo, Montana District, which has been offered for sale as it is not necessary for the Company's production activity/;

Products – production, supply, installation and repair of electric machines - synchronous and asynchronous low and high voltage electric engines, horizontal and vertical hydro-generators for various voltages and rotation frequencies.

Augusta Mebel AD /s/

Annual production capacity – relative, considering the different types of furniture produced over the years and the constant expansion of the product range as per customer preferences. Expressed in an amount indicator, the annual furniture production capacity may be conditionally assumed to be BGN 5 000 thousand;

Level of use – 61% in 2006;

Method of storage – there are no special requirements;

Location of assets – a site in Shoumen;

Products – massive timber furniture, chipboard and MDF surfaces.

Privat Engineering AD

Annual production capacity – the company carries out no production activity;

Location – an office in Sofia;

Services – insurance and reinsurance agency and consulting services.



Emona Shipping Ltd /ss/ and Marciana Shipping Ltd /ss/

Annual production capacity – as at present date the company carries out no production activity;

Location – as registered in Malta;

Products – with the construction of the two ships maritime transport, which belongs to the Maritime Business Sector, will become a part of the Group’s activities.

Hydro Power Bulgaria AD /s/

Annual production capacity – the company carries out no production activity;

Location – an office in Sofia;

Services – consulting services.

KLVK AD /s/

Annual production capacity – the company carries out no production activity;

Location – an office in Sofia;

Services – consulting services.

International Industrial Holding Bulgaria AG

Annual production capacity – the company carries out no production activity;

Location – Zug, Switzerland;

Services – acquisition, management and sale of interests in Bulgarian and foreign companies and consulting services.

8.2 ENVIRONMENTAL ISSUES WHICH MIGHT HAVE IMPACT ON THE USE OF ASSETS

➤ ***IHB Plc***

The nature of operations of IHB Plc and its assets do not raise environmental issues. Insofar as the operations of the Holding are determined by its subsidiaries, their ecological issues indirectly affect also the use of assets within IHB Plc Group as a whole.

➤ ***IHB Plc Group companies***

The accession of Bulgaria to the European Community involves commitments at a national level and subsequently – requirements to the business operating in the country to meet environmental norms and standards in terms of the production capacities and processes. Increasing emphasis is placed on the solution of the various related issues.

MARITIME TRANSPORTATION

Shipbuilding and Ship Repair



The overall technological process at Bulyard Shipbuilding Industry, conforming to all normative documents and operative instruction for proper execution of the relevant activities, is compliant with the respective environmental concerns.

In 2006 and to present, the company has executed the following environmental events:

- Step-by-step thorough cleaning of the whole area of the company from production, construction, residential, petroleum waste;
- A program for waste management up to the year 2011 has been elaborated and approved by the Regional Inspectorate on Environment and Waters;
- Strict control has been enforced to maintain order and cleanness in the area of the company through regular inspections and monetary sanctions;
- The collection and disposal of scrap materials has been organized;
- Waste materials are collected separately according to financial and environmental concerns;
- Regional Inspectorate on Protection and Control of Public Health - Varna has issued to the company a sanitation certificate for handling of hazardous waste;
- A large-scale inventory of the electrical equipment potentially containing polychlorinated biphenyl has been made, in compliance with European environmental requirements;
- A scheme for reduction of harmful emissions and a plan for solvents management as per the production and technological processes of the company and in compliance with Regulation № 7/21.10.2007 have been elaborated and approved by the Regional Inspectorate on Environment and Waters;
- Sample collection points for the organized emission sources from the installation for tin processing - zero line /1 collection point for the blasting sector, one for the sector and one for the drying sector / were determined as per the technical documentation of the technical department and Regulation № 6/26.03.1999. These have been approved by the Regional Inspectorate on Environment and Waters;
- Inspections by the controlling bodies have been carried out for all environmental aspects, no serious violations have been established, no financial sanctions for environmental violations have been imposed.

Urgent measures for the resolution of the following issues are forthcoming:

- Estimate and repair of the sewerage system, update of the map of the system with all connection points will be carried out in 2007;
- Development, introduction, and execution of a system for separate collection of residential waste. The task will continue during the following year and will be executed in line with European requirements and the waste management program of the company;
- On-going regular measurements of the dust, noise, and organic compounds pollution levels;
- Establishment of a permanent structure for reduction of volatile organic compounds emissions of the organized emissions sources from the tin processing installation – zero line;
- Construction of an indoors blasting and painting chamber.

Port Operations

In order to meet the environmental requirements for port activities, in 2006 **Dockyard Port – Bourgas AD** developed and approved a Corporate Waste Management Program up to 2011, in compliance with the European environmental standards.

MACHINE BUILDING

The technological processes at **ZMM Sliven AD** which have an impact on the environment are directly connected to components coating – oxygenation, chroming, galvanization. The waste waters are collected in a water purification station with separate basins for acid-alkaline waters and chrome purification waters, where they are neutralized with the necessary chemicals. After deposition, a chemical analysis is carried out and if the results are



satisfactory the water is discharged into the residential sewerage system and the solid waste, i.e. the deposit, is stored in specialized cisterns on the territory of the company. There is no government decision yet as to how and where this type of waste is to be stored. In our opinion it will be one of the key problems requiring investments for its definitive solution.

ZMM Sliven AD has a dedicated swarf unit where the swarf is stored separately from other waste until it is handed over for recycling. A lubricant unit is also established to store used lubricants which are periodically handed over to the refineries for secondary processing.

At **Mashstroy AD** the following production processes have an impact on the environment:

- Manufacture of castings from gray cast iron;
- Metal coating;
- Lacquer coating;
- Generation of solid metal waste.

The quartz sand is the principal material used for manufacture of castings. Its drying releases gas emissions attracting tiny sand particles and dust. The separation of the solid particles takes place in three cyclones. The gases from the casting section are released directly into the atmosphere through ventilation. In the melting unit an aspiration system has been mounted for organized release of the emissions from metal melting activities. Its commissioning is forthcoming.

The waste sand from smelting causes some problems because until recently it was stored on-site at the company. As a temporary measure the sand is deposited at the specialized site at the old city landfill of Troyan with the permission of the Regional Inspectorate on Environment and Waters – Pleven and Troyan Municipality. Because of the large volumes /1,500 – 2,000 tons per year/, the site is almost full. It is possible to recycle the used smelting sand so that only 20% of it will be deposited to the designated depot.

Pursuant to EU Directive 99/13/EC and Regulation No 7 of 2003 on the allowed norms for emissions of volatile organic compounds released into the atmosphere as a result of the use of organic solvents in certain installation, it will be necessary to modernize the existing painting chambers. The operators of installations within the scope of the Regulation need to submit to the competent bodies annual plans for solvents management. Such a plan is about to be developed.

A part of the metal waste is reused.

All plants at **ZMM Nova Zagora AD** have been designed and constructed in compliance with the environmental requirements during operation, and the regulated operations per types of production activities have been determined in advance and are monitored for compliance with the normative legislation of the country.

In 2006 **Elprom ZEM AD** did not register any specific problems with negative environmental impacts. The company holds an ISO 14 001:2004 certificate for environmental safety and ecological production. The production technologies presently used do not have a negative impact on the environment. Problems occur related to the regular maintenance of the existing aspiration systems in sections impregnation, vacuum-compound plant, lacquer machine, and the section-baking unit of the coil workshop. With the accession of Bulgaria to the European Union and the need of harmonization of the environmental legislation and norms, a solution will need to be found for the following issues:

- Replacement of the impregnation lacquer which is used together with a very harmful solvent with a new environment-friendly and water soluble type of lacquer;
- Purchase of a painting chamber for compliance of the painting section with the environmental norms and labour safety requirements;
- Construction of filters in the rotor section.

In terms of environmental safety **Leyarmach AD** has made serious investments. The two operational units emitting the most dust – regeneration and short blasting chamber – are connected with dry filters from where the dust is collected in special containers and bags and disposed of by a specialized company. Sand regeneration



makes the process effectively waste-free in terms of moulding mixtures. Local aspirators have been built to the separate operational units. The aspirators in the cleaning sector are not operational. On the roof there are about 30 axial ventilators coming out from the cupola furnace. The amortization of the heating aggregate of the furnace and the heightened requirements of foreign clients are some of the reasons for the decision of the management of ZMM Bulgaria Holding AD to gradually stop the cupola furnace and start induction melting of the cast iron. The two new induction furnaces bought from Inductotherm, Turkey, will solve the problem with the gases released by these production processes.

It is necessary to construct a new sector for production of transmission gear cores, to carry out a number of repair and rehabilitation works on the regeneration system for the sand, blenders, and hoisting equipment, to renovate the casing inventory. It is urgent to solve the issue with the earthing and lightning protection installations.

The efforts of Leyarmach AD for solution of environmental issues focus mainly in two directions:

- Organizational, technical, and investment measures for limiting to the minimum the principal pollutants – washing grate, shot blasting chamber, mould cleaning section;
- Complex measures for improvement of the environmental conditions in the vicinity of the main technological aggregates.

FURNITURE PRODUCTION

The production technology at Augusta Mebel AD has been organized towards meeting the environmental requirements within the presently attainable limits. The main raw material – wood in its various aspects – is almost completely utilized. The released solid waste from the wood processing are burnt in one of the steam boilers which has been modified for this purpose. Other solid waste – deposits from the lacquer section, deposits from the press unit, and empty lacquer containers are in negligible quantities, but at the insistence of the Regional Inspectorate on Environment and Waters they are determined as hazardous and stored in a waste storage facility.

Air protection is a specific for the company problem regarding negative environmental impact. Air pollution is effected mainly through exhaust gases from the chimney of the steam station and when drying lacquer coating:

- The company has now mounted a gas-powered installation but the burning of the wood waste will not be entirely eliminated;
- The volatile organic compounds from organic solvents threaten to become a problem for the company in case of an increase of the quantity of the used volatile nitro-cellulose lacquers. As per the above-cited Regulation №7, in case of an annual consumption of solvents exceeding 15 tons, the operations of the company fall within the scope of the Regulation. This will require the elaboration of a Solvents Management Plan and Emission Reduction Scheme, whose main objectives are the reduction of harmful emissions. The solution of the problem is to look for other types of lacquer with minimum or no emission of volatile organic compounds into the atmosphere.

RIVER CRUISES

The ships of **Dounav Tours AD** operate in European waters and their operations comply with the environmental regulations and laws of the countries through which they navigate. Potential pollution may occur from the lubricants used for the cruise ship engines. The problem has been solved by disposing the lubricants against payment at places specified for the purpose.

The European Union pays special attention to the solution of environmental issues in pre-accession and newly-joined countries. It is not a coincidence that this is one of the fields in which various institutions extend gratuitous grants and as of 2007 the Accession Funds will also start subsidizing such project. Companies in the IHB Plc group have used and are currently using subsidies from various **state funds** for the solution of their environmental problems.



In 2004 and 2005 **Leyarmach AD** and **Elprom AD** were granted funding from the Labor Conditions Fund to the Ministry of Labor and Social Policy in order to ensure healthy and safe working conditions. In 2006 **Bulyard Shipbuilding Industry EAD** was also approved for funding by the same fund. In 2007 **Elprom ZEM AD** launched a second project. The project of **Leyarmach AD** with energy saving and environmental effects will also rely on European subsidies. The active projects are described in detail in *Item 5.2.2. Description of the Issuer's major investments in process of realization, IHB Plc Group companies* on page 28 and on the following.



9 OVERVIEW OF OPERATIONS AND FINANCIAL POSITION

9.1 FINANCIAL POSITION

9.1.1 GENERAL OVERVIEW

This review of IHB Plc financial position and operations should be read together with the individual and consolidated financial statements of the Company for the years ended 31 December 2006, 31 December 2005 and 31 December 2004, which are audited by KPMG Bulgaria. IHB Plc keeps its accounts and prepares its financial statements in compliance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as per the respective revision applicable to each reporting period and the relevant Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

9.1.2 MATERIAL FACTORS HAVING IMPACT ON THE OPERATING RESULTS

As IHB Plc business is carried out exclusively through its subsidiaries, most factors having impact on its operating results are the factors having impact on the operating results of its subsidiaries. The operating results of the subsidiaries are influenced by a number of factors, including:

- The macroeconomic environment in Bulgaria;
- Legislative amendments;
- Taxation;
- Changes in exchange rates;
- Ecological standards;
- Seasonal character;
- Competition;
- Growth policy;
- Variable prices of raw materials used (mostly those of metals);
- Production demand life cycle;
- Availability of qualified personnel;
- Level of production capacities loading;
- Investments directed at restoration of production capacities and improvement of labour efficiency, introduction of new technologies, etc.;
- Innovations ensuring sales in the existing and entering new market niches;
- Corporate expenses control;
- Policy on negotiations with suppliers of materials occupying the greatest percentage in production costs;
- Policy on negotiations with customers.

Detailed information about the major factors having material impact on the Issuer's operating results is given in Item 9.2 *Operating results* on page 98.



9.1.3 KEY ACCOUNTING POLICY ELEMENTS

The financial statements are prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Commission as a result of Regulation EC 1606/2002.

In compliance with the Law on Accountancy, the International Financial Reporting Standards (IFRS) adopted by the European Commission apply in the Republic of Bulgaria as of 1 January 2006. The International Financial Reporting Standards should be officially translated in Bulgarian, adopted by the Council of Ministers of the Republic of Bulgaria and promulgated in the State Gazette. As at the date of approval of the financial statements by the Management of the Company, only the International Financial Reporting Standards adopted by the Commission of the European Union and effective as of 1 January 2005 are adopted by the Council of Ministers by Decree No 207 of 7 August 2006 and promulgated in the State Gazette, Issue No 66 of 15 August 2006. These financial statements are also prepared in compliance with IFRS adopted by the European Commission for application in 2006 as published in the Official Journal of the European Union in English.

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

The financial statements are prepared in compliance with the provisions of the Law on Accountancy and the following basic accounting principles:

- Current accrual;
- Going concern;
- Prudence;
- Income and expenses matching;
- Substance over form – the transactions and events are reported on the basis of their economic substance, nature and financial actuality and not formally based on their legal forms;
- Preservation of the accounting policy applied over the previous period, if possible, i. e. ensuring matching of accounting data over different reporting periods. In case of changed disclosure and classification of financial statement items, the comparative information is reclassified so as it may be compared to current period data. Such reclassifications are the result of more detailed presentation of the enclosures to the financial statements;
- Independence of the individual reporting periods and value relation between opening and closing balances.

The Company prepares:

- Annual financial statements as at 31 December of the reporting period;
- Consolidated financial statements as at 31 December of the reporting period;
- Interim financial statements – individual and consolidated for periods shorter than a calendar year in compliance with the Law on Markets in Financial Instruments – each quarter.

The preparation of financial statements in compliance with IFRS requires that the Company's Management adopt decisions and make estimates and assumptions, influencing accounting policies, as well as the amounts of reported assets, liabilities, income and expenses. The actual results may differ from these estimates. Estimates and related assumptions are reviewed on current basis. The results from accounting estimate reviews are recognized in the period of review, if such review concerns only this period or in the period of review and future periods, if such reviews concern the current and future periods.

In case of adjusted disclosed or classified statement amounts, comparative data are reclassified to ensure comparability to the current period. Such reclassifications result from more detailed presentation of the balance sheet and income statement items in the notes to the financial statements.



The financial statements consist of the following elements: balance sheet, income statement, cash flow statement, equity statement and enclosures, including significant accounting policies applied by the companies within the Group and notes to the financial statements.

Detailed description of significant accounting policies is given in the consolidated and unconsolidated annual financial statements of IHB Plc.

**9.1.4 OVERVIEW OF FINANCIAL POSITION**➤ *Financial position over the last three financial years*

The items of the consolidated net profit of IHB Plc over the last three financial years, ended on 31 December 2006, 2005 and 2004, as well as each item change in percentage, are presented in the table below.

Consolidated Income Statement	As at 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
	<i>(audited)</i> <i>(in thousands of BGN)</i>			%	
Operating income	132 404	70 097	48 117	88.9	45.7
Other operating income	2 684	22 033	1 414	(87.8)	1 458.2
Total sales income	135 088	92 130	49 531	46.6	86.0
Increase in work in progress	5 830	9 071	1 571	(35.7)	477.4
Cost of materials	(75 993)	(32 983)	(22 844)	130.4	44.4
Cost of hired services	(21 027)	(13 918)	(7 030)	51.1	98.0
Amortization and depreciation costs	(3 903)	(2 855)	(1 666)	36.7	71.4
Payroll costs	(27 673)	(20 122)	(11 617)	37.5	73.2
Cost of assets sold	(617)	(1 043)	(293)	(40.8)	256.0
Other operating expenses	(3 519)	(2 984)	(1 284)	17.9	132.4
Operating expenses	(126 902)	(64 834)	(43 163)	95.7	50.2
Operating profit	8 186	27 296	6 368	(70.0)	328.6
Interest income/ (expenses), net	652	(235)	(424)	(377.4)	(44.6)
Exchange rate differences, net	778	(166)	(292)	(568.7)	(43.2)
Investment income/ (expenses), net	1 560	7 639	286	(79.6)	2 571.0
Other financial income / (expenses), net	(323)	(221)	(179)	46.2	23.5
Net financial income/ (expenses)	2 667	7 017	(609)	(62.0)	(1 252.2)
Profit of associates reported according to the equity method	1 972	1 416	2 938	39.3	(51.8)
Profit before taxation	12 825	35 729	8 697	(64.1)	310.8
Tax expenses	(1 789)	(4 180)	(803)	(57.2)	420.5
Profit after taxation	11 036	31 549	7 894	(65.02)	299.66
Majority owners of the Company	9 647	29 898	7 662	(67.7)	290.2
Minority interest	1 389	1 651	232	(15.9)	611.6
Net profit for the year	11 036	31 549	7 894	(65.02)	299.66



2004

The consolidated income of IHB Plc for 2004 amounts to BGN 49 531 thousand, marking a growth of 6.1% as compared to 2003.

The operating income amounts to BGN 48 117 thousand compared to BGN 44 451 thousand in 2003 or a growth of 8.2%. It includes:

- Income from sale of products – BGN 35 566 thousand;
- Income from rendered services – BGN 11 929 thousand;
- Income from sale of goods and materials – BGN 622 thousand.

The other operating income, on consolidated basis, amounts to BGN 1 414 thousand (2003: BGN 2 250 thousand) and includes amortization of negative goodwill, income from sale of non-current assets and others.

The consolidated income growth of 6.1% in 2004 is due to the Holding's portfolio structure as at the end of the period, during which machine building occupied the largest share. The net income from machine building for the year amounts to BGN 37 307 thousand or 76% of total sales income. The sector is at its mature stage, which results in lower growth rates. The net income from shipbuilding and transport for 2004 amounts to BGN 4 779 thousand or 10% of the total.

The consolidated net profit for 2004, excluding minority interests, is BGN 7 662, marking a growth of 119% as compared to the 2003 profit. This growth is due to the increased operating income and relative preservation of costs.

2005

The 2005 consolidated income of IHB Plc amounts to BGN 92 130 thousand, i. e. it increased by 86% as compared to 2004. This growth is mainly due to the consolidation of Bulyard Shipbuilding Industry AD and the sales of real estates over the year (see below).

The operating income amounts to BGN 70 097 thousand compared to BGN 48 117 thousand in 2004 or a growth of 46%. It includes:

- Income from sales of products – BGN 44 988 thousand;
- Income from rendered services – BGN 23 297 thousand;
- Income from sales of goods and materials – BGN 1 812 thousand.

The increased income is the result of:

- The consolidation of the income of Bulyard Shipbuilding Industry AD, which became a subsidiary of the Holding after acquiring control over Bulyard AD. This resulted in increase in the income from shipbuilding and transport of more than five times, which occupied 25% of the total income as at the end of the year;
- Higher operating results of the Group's companies.

The other operating income, on consolidated basis, amounts to BGN 22 033 thousand, i. e. it increased by more than 15 times as compared to 2004 /BGN 1 414 thousand/. It includes gains on sales of non-current assets /BGN 20 469 thousand/ and others /BGN 1 564 thousand/.

In December 2005 Privat Engineering AD sold its estate in Boudzaka Area near Sozopol for the price of BGN 23 470 thousand, the land having carrying amount of BGN 5 053 thousand and costs related to site development, building permit and sale of total amount of BGN 1 759 thousand. KLVK AD sold its estate purchased in 2004 – land and buildings in the Resort Complex of Shkorpilovtsi, having carrying amount of BGN 3 430 thousand for a price, reduced by sale and other costs, of BGN 6 647 thousand. The sale of land, buildings and equipment, property of Mashstroy AD, Bulyard Shipbuilding Industry AD and ZMM Nova Zagora AD, form the remaining portion of the profit.



The increase in the Group's net financial income – BGN 7 017 thousand compared to BGN (-609) thousand in 2004 was mainly due to the gains on sale of the shares of Dockyard Odessoss AD.

The consolidated net profit for 2005, excluding minority interests, is BGN 29 898 thousand, i. e. it decreased by four times as compared to 2004. In addition to the above factors, the improved operating efficiency also contributed to the net profit growth. As a result, the operating profit margin (before amortization and depreciation) increased from 16.2% in 2004 to 32.7% in 2005.

2006

The 2006 consolidated income of IHB Plc amounts to BGN 135 088 thousand, i. e. it increased by 47% as compared to 2005. The operating income is BGN 132 404 thousand as compared to BGN 70 097 thousand in 2005 or a rise of 89%. It includes:

- Income from sale of products – BGN 110 611 thousand. The income from sales of products increased by BGN 65 625 thousand, i. e. it marked a rise of 146% as compared to 2005. This rise is a result from the increased shipbuilding income of BGN 66 439 thousand as compared to BGN 7 327 thousand in the preceding period. Most of the other Group's companies also realized increased income in 2006, excluding Bulgarian Register of Shipping AD and Leyarmach AD, which marked slight decrease and Privat Engineering AD and KLVK AD, which realized considerably decreased income from sale of non-current assets in 2005;
- Income from rendered services - BGN 18 759 thousand. The income from sale of services marked a decrease of BGN 4 538 thousand AD or 20% as compared to 2005. The income from ship repair decreased as Bulyard Shipbuilding Industry AD started general construction of ships;
- Income from sale of goods and materials - BGN 3 034 thousand.

The other operating income, on consolidated basis, amounts to BGN 2 684 thousand compared to BGN 22 033 thousand in 2005. It includes gains on sale of non-current assets /BGN 1 541 thousand compared to BGN 20 469 thousand in 2005/ and other /BGN 1 143 thousand compared to BGN 1 564 thousand/.

The increased share of shipbuilding resulted in significant decrease in the operating profit margin (before amortization and depreciation) from 32.7% in 2005 to 8.9% in 2006 due the increased costs of materials, raw materials and labour.

The consolidated net profit for 2006, excluding minority interests, is BGN 9 647 thousand compared to BGN 29 898 thousand, i. e. it decreased by 68%.



The structure of IHB Plc consolidated balance sheets as at 31 December 2006, 2005 and 2004 is shown in the table below:

Consolidated Balance Sheet	As at 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
<i>In thousands of BGN</i>					
Assets	<i>(audited)</i> <i>(in thousands of BGN)</i>			%	
Property, plant and equipment	56 391	53 334	42 422	5.7	25.7
Intangible non-current assets	677	183	202	269.9	(9.4)
Goodwill	6 318	5 520	(2 060)	14.5	(368.0)
Investments in associates reported according to the equity method	9 077	7 706	11 029	17.8	(30.1)
Other investments	8	242	1 662	(96.7)	(85.4)
Long-term receivables	1 185	943	1 282	25.7	(26.4)
Total non-current assets	73 656	67 928	54 537	8.4	24.6
Inventories	49 559	30 204	11 225	64.1	169.1
Trade and other receivables	33 032	34 460	4 126	(4.1)	735.2
Financial assets held for trading	1 361	1 310	0	3.9	-
Cash and cash equivalents	17 310	21 864	8 103	(20.8)	169.8
Total current assets	101 262	87 838	23 454	15.3	274.5
Total assets	174 918	155 766	77 991	12.3	99.7
Equity					
Share capital	21 003	21 003	21 003	0.0	0.0
Reserves	15 296	13 735	11 897	11.4	15.4
Retained earnings (net)	56 356	47 321	14 417	19.1	228.2
Total equity and reserves	92 655	82 059	47 317	12.9	73.4
Minority interest	20 903	21 303	6 293	(1.9)	238.5
Liabilities					
Loans	6 757	503	2 087	1 243.3	(75.9)
Debenture loan	0	5 233	5 221	(100.0)	0.2
Trade and other long-term payables	21	24	137	(12.5)	(82.5)
Provisions	889	2 686	1 378	(66.9)	94.9
Deferred tax payables	1 136	1 348	1 541	(15.7)	(12.5)
Total non-current liabilities	8 803	9 794	10 364	(10.1)	(5.5)
Loans	2 892	2 052	2 990	40.9	(31.4)
Debenture loan	5 244	0	0		
Other payables	44 315	40 322	10 854	9.9	271.5
Provisions	106	236	173	(55.1)	36.4
Total current liabilities	52 557	42 610	14 017	23.3	204.0
Total equity and liabilities	174 918	155 766	77 991	12.3	99.7



As at 31 December 2006 IHB Plc assets amount to the total of BGN 174 918 thousand, which represents a growth of 12.3% compared to the same total amount as at 31 December 2005, which is BGN 155 766 thousand. The assets growth in 2005 is 99.7% compared to BGN 77 991 thousand as at 31 December 2004. The average annual growth of IHB Plc for the period is 50%.

The average annual growth of non-current assets is 16%. The dynamics of the Holding's non-current assets is the result of the Holding's portfolio restructuring: over the period IHB Plc increased its shares in some activities (shipbuilding) and terminated other activities (real estates).

The average growth of current assets is 108%. The major components having impact on this change are the growths of inventories and trade and other receivables resulting from the increased share of shipbuilding in the Holding's activity over the reporting period.

The 2006 assets of IHB Plc amount to BGN 61 360 thousand compared to BGN 52 404 thousand in 2005 and BGN 24 381 thousand in 2004.

The Holding's non-current assets over the period are formed from bank loans and a three-year issue of convertible bonds with maturity – July 2007. These loans are intended for financing of the investment programs of the Group's companies. Information about IHB Plc loans is given in *Item 10. Capital resources* on page 112.

The growth of the current assets over the reporting period is at the rate of 94%. It is mainly due to the increasing trade payables and advance payments received. The growth of received advance payments (mainly from Bulyard Shipbuilding Industry AD) is characterized by extremely high rates at the annual average of 800% as a result of the practice applied in the shipbuilding sector – financing and securing of construction by advance payments from ship owners and by the builder respectively. As at the end of 2006 the advance payments received from IHB Plc represent a total of 60% of Other short-term payables. Over the period 2005-2006 the advance payments received from Bulyard Shipbuilding Industry AD vary within the range of 93%-94% of the total amount of advance payments received.

The Holding's equity increased nearly twice – from BGN 47 317 thousand in 2004 to BGN 92 655 thousand as at the end of 2006. The main factor predetermining this rate of growth is the undistributed profit.

➤ *Financial position over the first half of 2007*

The items of the consolidated net profit of IHB Plc over the first halves of 2007 and 2006, as well as each item change in percentage, are presented in the table below.

Consolidated Income Statement	As at 30 June		Change
	2007	2006	
	<i>(unaudited)</i> <i>(in thousands of BGN)</i>		%
Operating income	51 989	53 991	(3.7)
Other operating income	996	849	17.3
Total sales income	52 985	54 840	(3.4)
Increase in work in progress	33 345	1 388	2 302.4
Cost of materials	(44 287)	(26 785)	65.3
Cost of hired services	(14 800)	(7 406)	99.8
Amortization and depreciation costs	(2 199)	(1 871)	17.5
Payroll costs	(15 610)	(12 265)	27.3
Cost of assets sold	(1 323)	(304)	335.2
Other operating expenses	(923)	(686)	34.5
Operating expenses	(45 797)	(47 929)	(4.4)
Operating profit	7 188	6 911	4.0
Interest income/ (expenses), net	(286)	374	(176.5)
Exchange rate differences, net	76	622	(87.8)
Investment income/ (expenses), net	569	7	8 028.6
Other financial income / (expenses), net	(190)	(233)	(18.5)
Net financial income / (expenses)	169	770	(78.1)
Profit of associates reported according to the equity method	766	26	2 846.2
Profit before to taxation	8 123	7 707	5.4
Tax expenses	(637)	(1 058)	(39.8)
Profit after taxation	7 486	6 649	12.59
Majority owners of the Company	6 015	4 806	25.2
Minority interest	1 471	1 843	(20.2)
Net profit for the period	7 486	6 649	12.59



IHB Plc consolidated income for the first half of 2007 amounts to BGN 52 985 thousand and marks a decrease of 3.4% as compared to the income for the same period of 2006. This decrease is mainly due to the shipbuilding activity, which occupies the largest relative share in the total income of the Holding.

Though the ship construction contracts concluded in 2007 are greater in number, the income from shipbuilding as at 30 June 2007 is lower as compared to the same period of the preceding year. One of the main reasons is the method of income recognition applied with regard to shipbuilding. The income from shipbuilding is recognized through application of the method upon completion of a working stage under a particular contract (see *Item 9.1.3. Basic accounting policy elements* on page 88). With a view to accounting recognition of the major technological stages of ship construction, Bulyard Shipbuilding Industry AD has defined three stages of completion under the ship construction contracts, and namely:

- Keel placement;
- Ship commissioning;
- Ship handover to the client.

Income and expenses are reported upon completion of the particular stage: during the first two stages the income is accrued up to the amount of the expenses made in relation to the particular stage and upon third stage completion the financial result is recognized as well. Due to the specific accounting policy applied, the income related to ships construction in the respective periods should not be compared.

In this particular case, as at 30 June 2006 income by stages of construction of two ships is reported and as at 30 June 2007 – one stage of the construction of one ship and income from the construction of separate ship sections are reported.

The operating expenses structure is changing towards increase in the costs of materials and hired services and payroll costs as a result of the specifics of the shipbuilding activity. The operating profit margin (before amortization and depreciation), however, marked a growth at the rate of 17.7% in the first half of 2007 compared to 16% in the first half of 2006. This resulted from the significant increase in the production in progress (twenty-four times), 95% of which belongs to Bulyard Shipbuilding Industry AD.

The consolidated net profit, excluding minority interests, for the first half of 2007 amounts to BGN 6 015 thousand compared to BGN 4 806 thousand or an increase of 25%.



The structure of IHB Plc consolidated balance sheets as at 30 June 2007 and 31 December 2006 is shown in the table below:

Consolidated Balance Sheet	As at		Change
	June 2007 (unaudited)	December 2006 (audited)	
<i>In thousands of BGN</i>			
Assets	<i>(in thousands of BGN)</i>		%
Property, plant and equipment	57 802	56 391	2.5
Intangible non-current assets	892	677	31.8
Goodwill	7 225	6 318	14.4
Investments in associates reported according to the equity method	9 844	9 077	8.4
Other investments	8	8	0.0
Long-term receivables	1 029	1 185	(13.2)
Total non-current assets	76 800	73 656	4.3
Inventories	81 089	49 559	63.6
Trade and other receivables	34 313	33 032	3.9
Financial assets held for trading	931	1 361	(31.6)
Cash and cash equivalents	12 200	17 310	(29.5)
Total current assets	128 533	101 262	26.9
Total assets	205 333	174 918	17.4
Equity			
Share capital	21 003	21 003	0.0
Reserves	15 722	15 296	2.8
Retained earnings (net)	61 882	56 356	9.8
Total equity and reserves	98 607	92 655	6.4
Minority interest	19 816	20 903	(5.2)
Liabilities			
Loans	13 337	6 757	97.4
Debenture loan	0	0	
Trade and other long-term payables	187	21	790.5
Provisions	839	889	(5.6)
Deferred tax payables	1 131	1 136	(0.4)
Total non-current liabilities	15 494	8 803	76.0
Loans	6 993	2 892	141.8
Debenture loan	0	5 244	(100.0)
Other payables	64 381	44 315	45.3
Provisions	42	106	(60.4)
Total current liabilities	71 416	52 557	35.9
Total equity and liabilities	205 333	174 918	17.4

As at 30 June 2007 IHB Plc assets amount to the total of BGN 205 333 thousand. This represents an increase of 17.4% compared to BGN 174 918 thousand as at 31 December 2006.



The major data related to the dynamics and structure of the balance sheet as at 30 June 2007 are as follows:

Inventories

The inventories growth for the period is 63.6% resulting from the nearly triple increase in production in progress, 85% of which in the shipbuilding sector.

Cash and cash equivalents

The period is characterized by a decrease of 29.5% in cash and cash equivalents. The particular reasons are described in detail in Item 10.2. *Assessment of the Issuer's sources and cash flows* on page 116.

As at 30 June 2007 the blocked cash amounts to BGN 6 346 thousand – BGN 2 670 thousand envisaged for securing letters of credit under current deliveries opened in favour of suppliers in relation to shipbuilding and ship repair. BGN 3 676 thousand was blocked to secure bank guarantees issued in favour of third parties.

Loans

As at the end of the period the secured long-term bank loans amount to the total of BGN 12 810 thousand (BGN 6 757 thousand as at 31 December 2006), while the short-term portion of secured bank loans is BGN 2 661 thousand.

Information about the Issuer's loans is given in Item 10. *Capital resources* on page 112.

9.2 OPERATING RESULTS

9.2.1 INFORMATION ABOUT MATERIAL FACTORS, INCLUDING UNUSUAL AND RARE EVENTS OR NEW DEVELOPMENTS WHICH HAVE MATERIAL IMPACT ON THE OPERATING INCOME OF THE ISSUER, STATING THE LEVEL OF IMPACT ON THE INCOME

➤ IHB Plc

Due to the specifics of the operations, IHB Plc income is formed by the following:

- Interest income;
- Gains on transactions with investments /sale of shares and financial transactions/;
- Dividend income;
- Other income – sale of services, etc.

In the period 2004-2006 the operating income of the Holding was influenced by the following key **factors**:

The major portion of **interest income** is related to interest-bearing receivables from subsidiaries, as well as from other companies in respect of deferred payments under share sale agreements. The decrease is due to the fact that most subsidiaries closed their commitments to the Holding in respect of cash loans granted. IHB Plc redirected the subsidiaries' needs of financial resources to bank institutions, in order to focus its free funds in priority investment projects. At the same time contracts for sale of shares for deferred payment are gradually finalized.

IHB Plc implements a policy of consistent restructuring of its portfolio through:

- Sale of shares in companies, where it does not exercise control;
- Grossing up of existing stakes of shares;
- Focus of the operations in the sectors which form today's image of its investment portfolio.



This process of restructuring and shaping up is accompanied by sale and purchase of shares larger in terms of volumes and capital gains during the early years of the Company's existence. As a result **gains from sale of shares** have been gradually decreasing. Their significant increase in 2005 is mainly due to the sale of the remaining stake of shares in the capital of Dockyard Odessoss AD, Varna, of which IHB Plc realized a profit of BGN 6 780 thousand. For 2006 BGN 187 thousand is reported as profit resulting from the sale of:

- 430 489 shares of Chimremontstroy AD, Sofia – BGN 124 thousand;
- 39 349 shares of ELPO AD, Nikolaevo – BGN 6 thousand;
- 8 233 shares of Bulgartabac Holding AD, Sofia – BGN 57 thousand.

With the sale of the two remaining stakes of shares to their majority owners the Holding, in broad outlines, completed the process of restructuring and the consolidation of its investment portfolio. The remaining shares held for sale under favourable conditions are owned by Bulgartabac Holding AD.

The low **dividend income** till 2004 is related to:

- The decreasing number of subsidiaries as a result of the restructuring of the holding portfolio;
- The fact that with the establishment of ZMM Bulgaria Holding AD as of the end of 2001 the focus in the development of the sector structure of the Issuer is placed on machine building. The sector is characterized with a long production cycle and need of significant working capital to secure the normal and rhythmic production;
- The global stagnation has adverse impact on the companies in the ZMM Bulgaria Holding AD group. The profit reported during these years was retained for reinvestment in the machine building companies;
- The fact that the Holding invested significantly in the remaining subsidiaries, mainly through subscribing shares in their capital increases, aimed at renewal of the existing machines and improvement of their capital structure. The real effect of the investments started to be demonstrated notably in 2004 and will do so in the future.

In 2005 and 2006 the positive trend for increase in dividend income continued. In 2006 IHB Plc received dividends of BGN 1 218 thousand distributed by ZMM Bulgaria Holding AD – BGN 727 thousand, Maritime Holding AD – BGN 456 thousand and Bulgartabac Holding AD – BGN 35 thousand..

As at the date of this Registration Instrument dividends against the 2006 profit at the total amount of BGN 3 516 thousand, distributed by ZMM Bulgaria Holding AD – BGN 3 020 thousand; Maritime Holding AD – BGN 427 thousand and Bulgartabac Holding AD – BGN 69 thousand, have been reported.

Income from sale of services is related to services rendered to companies within and outside the group of the Holding. Its growth in 2006 results from contracts for issuance of bank and corporate guarantees to subsidiaries to secure their liabilities to customers.

The income from the currency option sold in 2004 has been reported **unrealized loss from revaluation of assets held for trading and others**. As a result of a decrease in the stock exchange price of the shares of Bulgartabac Holding AD as at 31 December 2005, IHB Plc revalued the remaining shares in its portfolio and reported loss from revaluation of financial assets of BGN 206 thousand. As at the end of 2006 a positive difference of BGN 281 thousand was reported from this revaluation as a result of the increased stock exchange price of the shares of the tobacco holding.



The table below shows the relative share of the individual income items in the total income of IHB Plc, respectively the level of impact of the above-mentioned factors on income on unconsolidated basis:

Indicator	2006			2005			2004		
	Amount BGN'000	Share %	Growth %*	Amount BGN'000	Share %	Growth %*	Amount BGN'000	Share %	Growth %*
Interest income	220	7.5	(24)	289	3	(27)	396	19	(17)
Gains from sale of shares	187	6.4	(97)	6 997	87	3 452	197	10	(17)
Dividend income	1 218	41	41	862	11	26	684	33	533
Unrealized profit/ loss from revaluation of assets held for trading and others	281	10	236	(206)	(2)	(378)	74	4	306
Income from sale of services	1 036	35	817	113	1	(83)	673	33	318
Other income	4	0.1	100				17	1	31
Total income	2 946	100	(63)	8 055	100	295	2 041	100	112

* Growth/decrease is calculated compared to the preceding year

➤ **IHB Plc Group companies**

The total sales income over the last three financial years, on consolidated basis, is shown in the table below. The data for the last three financial years are as per the audited consolidated financial statements of IHB Plc, where the operating income of the Holding /operations with shares, dividends and interests on loans granted to subsidiaries/ is reported as financial income.

Consolidated sales income

Sales income /in thousands of BGN/	2006	2005	2004
Income from sale of production	110 611	44 988	35 566
Income from sale of services	18 759	23 297	11 929
Income from sale of goods and materials	3 034	1 812	622
Gains from sale of non-current assets	1 541	20 469	125
Other income	1 143	1 564	1 289
Total sales incomes	135 088	92 130	49 531

Structure and dynamics of consolidated sales income

Sales income	2006		2005		2004	
	Share, %	Growth*, %	Share, %	Growth*, %	Share, %	Growth*, %
Income from sale of production	81.88	145.87	48.83	26.49	71.81	15.84
Income from sale of services	13.89	(19.48)	25.29	95.30	24.08	(9.23)
Income from sale of goods and materials	2.24	67.44	1.96	191.32	1.26	2.81



Gains from sale of non-current assets	1,14	(92.47)	22.22	16 275.20	0.25	(66.58)
Other income	0.85	(26.92)	1.70	21.33	2.60	(31.29)
Total sales incomes	100.00	46.63	100.00	86.00	100.00	6.06

* Growth/decrease is calculated compared to the preceding year

Sales income by sector /in thousands of BGN/	2006	2005	2004
Shipbuilding and transport	80,070	23,199	4,779
Machine building	49,964	44,042	37,307
Others	5,054	24,889	6,845
Amortization of negative goodwill, net ¹			600
Total sales income	135,088	92,130	49,531

Source: Consolidated financial statements of IHB Plc accompanied by an independent audit report.

¹ As of 1 January 2005 the Group applies the requirement of IFRS 3 Business Combinations in reporting acquisitions and in reporting investments in associates for the purposes of the consolidated financial statements. As a result, the amortisation of positive goodwill has stopped, with the latter being tested for impairment at the end of the reporting period.

Sales income by sector	2006		2005		2004	
	Share, %	Growth*, %	Share, %	Growth*, %	Share, %	Growth*, %
Shipbuilding and transport	59	245	25	385	10	(5)
Machine building	37	13	48	18	76	17
Others	4	(80)	27	264	14	(20)
Total sales income	100	47	100	86	100	6

* Growth/decrease is calculated compared to the preceding year.

The factors having impact on the Group's income may be classified by sectors based on their shares in the Holding's investment portfolio.

MARITIME BUSINESS

Shipbuilding and ship repair

In the preceding three years the efforts of IHB Plc Management were directed at increasing the share of **shipbuilding and ship repair**, which belongs to the maritime business sector as per the sector structure of the Holding's investment portfolio. In 2005 the Holding acquired control over **Bulyard AD**, which is 61.5% as at present date. At the beginning of 2007 Bulyard AD increased its shareholding in **Bulyard Shipbuilding Industry AD, Varna**, from 75% to 100%, thus at present date IHB Plc controls, through Bulyard AD, 61.50% of its subsidiary **Bulyard Shipbuilding Industry EAD**.



2004 is the starting year for **Bulyard Shipbuilding Industry AD** and is not characteristic of the Company's production activity.

In **2005**:

- The development of the overall company vision and production strategy began;
- Income from new building was realized as a result from the completion of ships with construction Nos 512 and 285;
- 5 new building contracts were concluded. The building of vessels with construction Nos 287, 516 and 457 started but the major portion of the income represents gains from ship repair and exceeds building income by 60% due to the specific reporting of building income /see above/. The key objective of the company was to ensure 100% production capacity loading. The fulfilment of orders under contracts grew with a view to optimal use of the specifics of existing capacities;
- The update of the required technical documents in compliance with the signed contractual requirements and their adjustment to the new rules and requirements of the classification organizations began;
- Attention was paid to the corporate expenses and reserves with a view to reduction of cost prices, planning of cost prices at each construction stage and creation of a system for comparison of planned and reporting cost prices based on months and stages;
- One of the main problems of the management was related to hiring of basic production personnel – hull experts and welders;
- Preparation was made and all available basic production capacities, required for the activity, were commissioned. Investments of BGN 3 million were made. At the same time tenders and sale of tangible non-current assets, not used by the company, were realized;
- Complete inventory, collection in a warehouse and quick disposal of waste materials round the production sites were taken and realized.

2006 is characterized with:

- Gradual loading of its production capacities with the building of new ships with construction Nos 287, 516, 515 and 457. Shipbuilding has become core activity of the company and the income from this activity exceeds the income from ship repair 16.5 times. On 19 December ship No 516 was commissioned. The 42 600-ton vessel designed for bulk freights bears the name Stara Planina and was officially delivered in June 2007. 5 contracts were signed with Acer Tulcha for production of hull sections for supplying ships. These orders of high return are fulfilled by subcontractors. 3 contracts were signed for new ships – one ship with construction No 190 and two multi-purpose 9 800-ton ships for subsidiaries of Privat Engineering AD – No 288 for Emona Shipping Ltd and No 289 for Marciana Shipping Ltd;
- Realization of income from ship repair in the periods when the chambers were free and execution of contracts under other orders;
- Continuing hiring of production personnel – hull experts and welders, including from abroad. The insufficient number of employees was compensated for through conclusion of contracts with subcontractors for performance of the basic production activity;
- Active investment operations with a view to restoration of production capacities, increasing of labour efficiency and introduction of new technologies. In 2006 over BGN 4.5 million was invested.

Major events regarding the operations of **Bulyard Shipbuilding Industry EAD** as of the beginning of 2007 till the date of this Registration Instrument:

- On 17 January Tangra Ship with construction No 287 was delivered to its owner. The 9 300-ton vessel is designed for general and bulk freights, certified by Lloyd's Register and the first newly built ship following the restoration of the production activity of the shipyard in Varna;
- On 25 April Pirin, the second ship of the order of Navigation Maritime Bulgare EAD, was commissioned. The 21 200-ton vessel is designed for bulk freights and is certified by Germanischer Lloyd. The ship is expected to be delivered in October 2007;



- In June the Stara Planina Ship was officially delivered to Navigation Maritime Bulgare EAD, navigating as time charter at present;
- Works have been carried out in relation to the third ship ordered by Navigation Maritime Bulgare EAD – a 42 600-ton ship intended for bulk freights with construction No 515. In July the ship keel was placed in a big dock chamber. It is expected to be commissioned in the middle of December 2007 and be delivered to its owner at the end of April or the beginning of May 2008;
- In June the keel of hull No 190 was placed in a small dock chamber. At the end of March 2007 Bulyard Shipbuilding Industry EAD signed a second contract for construction of a partially saturated hull for a ship designed for support. Its cutting up started in August 2007;
- The cutting up of ship with construction No 288 for Emona Shipping Ltd is in a process of completion. The keel is expected to be placed on 21 September. The cutting of the sheet iron of ship with construction No 289 for the same company, whose keel is expected to be placed in January 2008;
- In August an agreement on building of the third vessel with construction No 458 /see Item 5.2.3 on page 28/ for the Group of IHB Plc was made;
- A contract was signed with IHI Marine United Inc – Japan for licensing the building of a new ship super handymax. The ship type is exclusively popular on the market and there is a great interest in such orders on behalf of ship owners;
- On 16 August 2007 Bulyard Shipbuilding Industry EAD signed contracts for building of three new ships with Navigation Maritime Bulgare EAD. The ships are intended for bulk freights. The first one with 21 200-ton loading capacity and price of BGN 23 million is to be built by the end of 2009. The other two will be super handymax with 21 200-ton loading capacity, unit price of BGN 23 million and delivery terms – 30 September 2011 and 31 January 2012 respectively;
- In March 2007 the shipyard obtained a quality management system certificate under ISO 9001:2000. The certificate scope includes design of vessels, shipbuilding and ship repair. The certificate was issued by BV – Bureau Veritas Certification – Bulgaria;
- The approved 2007 Investment Program of the company is for over EUR 3 million and envisages purchase of new equipment, construction and equipment of a blasting and painting chamber. Part of the funds will be provided through the increase in the capital of Bulyard Shipbuilding Industry AD and part – under the form of a special purpose bank credit;
- There is a trend towards rise in the selling prices of **ships and ship repair**, observable at Bulyard Shipbuilding Industry AD as well. It is the result of the increased maritime transport volume, demand for new ships and the necessity of repair of existing vessels in relation to the new requirements on navigation safety.

Port operations

There is a trend towards increase in water transport of goods against land transport due to ecological considerations. The economic exchange among the countries also increases due to economies development. This trend is observed in Bulgaria as well – there are growth in GDP and growth in export and import.

The two ports within IHB Plc Group, Odessoss AD and Dockyard Port-Bourgas AD, carry out no port operations as of 2004.

In 2006 **Dockyard Port-Bourgas AD** processed all types of metal freights and finished metal products. Port operations developed much faster as compared to 2005 in terms of infrastructure and processed freights. A total of 26 875 tons of metal was processed during the reporting year. The 2006 income from port operations, which includes freight procession, warehouse and exploitation activities, rents and other related activities, amounts to BGN 218 thousand compared to BGN 14 thousand in 2005.

The 2006 operating income of **Odessoss PBM AD** is at the amount of BGN 661 thousand, i. e. it increased by 2,2 times as compared to 2005. The biggest portion of the income is occupied by rents and port services. The other income is at the amount of BGN 128 thousand, 75% of which represents gains on scrap sales.



MACHINE BUILDING

Factors having impact on the machine building sector:

- Territorial division of sales by number of countries, regions and continents; superiority of sales in economically and politically stable regions;
- Keeping of existing and attraction of new solvent customers through quality and timely supplied production. This especially concerns **Leyarmach AD** and **ZMM Nova Zagora AD**, the main customers of which are still the machine building companies of **ZMM Bulgaria Holding AD** Group;
- Constant rise in the prices of corporate supplies, cast supplies in particular /due to metal prices and increased relative share of cast iron in the contents as a result of the higher requirements on quality and the necessity of limitation of the production at the old furnace of Leyarmach AD/ and additional equipment completion, which raise end product cost and decrease the gains under the conditions of fixed market prices of end products;
- The existing strong price competition on the international machine building production market;
- The innovations guaranteeing sales in the existing and penetration into new market niches in the future.

The process of metal cutting machines production is characterized with certain inertia and the impact, which the mentioned factors has on the operating income of the holding company, is delayed in time. The investment production nature and market diversification make the valuations even more conditional and do not allow clear determination of the direct impact of any factor on production income. Usually, distributors operating on the particular market are used as market information sources and relevant preventive actions are undertaken on the basis of their assessments and recommendations. The method of monitoring and similarity of analogical productions in the sector and their positions on the market is also used for assessment of the company momentary position.

The main steps, undertaken by the management and having affected the operating income of the group in the last three financial years, are the following:

- Execution of integrated, consistent and flexible business policy by customer and market in relation to production volume and services, ensuring avoidance of business competition among the subsidiaries;
- Application of policy on centralized agreement with suppliers of materials with the biggest weight in production cost price to reduce the negative affect of the constantly rising prices of these materials;
- Material decrease of metal-consuming products against labour-consuming ones in consideration of the nearly double prices of cement steel /replacement of rolled iron with casts/;
- Provision of buffer financial reserve under the control of the holding, which contributed to the operational overcoming of temporary financial difficulties of the companies that are unavoidable in consideration of the market dynamics and increased the trust of customers and suppliers;
- Introduction of single accounting plan and unification of the accounting software, which reduced the time required for the collection and procession of accounting information and ensured better planning of production processes;
- Modernization of the basic production equipment of the companies, which provides solution to the problematic “narrow” points in the production process /see *Item 5.2.1 and Item 5.2.2. Investments, IHB Plc Group companies* on page 19 and the following and on page 28 and the following/;
- Starting the production of new products with updated prices for solvent consumers as well – annual actualization of the production scope including at least one new product for each subsidiary and its presentation at International Technical Fair – Plovdiv /see *Item 11. Research and development activities, patents and licenses* on page 124/. The new developments will have material impact on the operating income of the group in the next years as well.

The main trend regarding production and sale of **metal cutting machines** reached stage of stabilization following gradual growth at the beginning of the period. In 2006 the demand for small and medium-size lathes kept and increased sale of large lathes was observed. The whole 2006 is characterized by fall in the demand for and sale of metal cutting machines on the Turkish market and increased sale on the markets of USA, Russia, Italy and



Germany As a result from this market conditions, in 2006 the sales of **ZMM Sliven AD** marked a decrease of 10% in in-kind form as compared to 2005 and value rise of 1.4% at the amount of up to BGN 17 785 thousand – a record volume realized since 1992.

The production volume growth led to extended supply terms, which negatively influenced demand and quality. The constantly rising prices of energy carriers and raw materials /metals in particular/, the purchased equipment completion and labour have been slowly increasing production cost price. The technological equipment and building facilities, the maintenance costs of which are constantly rising, additionally increase production cost price. The adjustment of the selling prices of **metal cutting machines** is restricted by the current strong competition on world markets and the economic stagnation on some markets. The companies were successful in keeping maximum good price lists though the admissible justified price adjustments are possible once per year, considering inflation rate and average changes in the prices of materials. They also aim at compensation of the negative impact of such factors through preliminary clarification of annual requests by major distributors by market with a view to improvement of the planning and supply of raw materials and optimization of production organization. There should be considered certain level of insecurity of this planning, predetermined by the conditional nature of the requests made by distributors that are subject to the particular market factors.

The selling prices of the electric engines produced by **Elprom ZEM AD** are compared to the prices of analogical products of competitors and reviewed each six months. They are adjusted, if necessary, according to market conditions. For example, in 2006 the selling prices were adjusted once – in June, as a result from the rise in basic material prices – electrical and technical sheet iron, aluminium and copper wire.

The 2007 basic aspects regarding the production and trade operations of the two machine building companies within the group **ZMM Sliven AD** and **Mashstroy AD** are as follows:

- Increase of the share of large universal and boring machines;
- Expansion of the range of offered products;
- Growth of the sales in Russia, USA, the Far East and South America.

In 2007 the efforts of **ZMM Nova Zagora AD** are focused on:

- Strengthening of its positions on the strip cutting machine markets in the country and abroad;
- The production of new units for metal cutting machines intended for export to Russia;
- Introduction of chip conveyors in production for export;
- Expansion of the production capacities at the workshops for units for metal cutting machines;
- Modernization of the machinery equipment for precise gears.

In 2007 **Elprom ZEM AD** focuses on the production and repair of hydro-generators and the increased demand for electric engines. The funds granted to the company by the National Innovation Fund for a scientific and applied project for development of a new insulation system will ensure the design and development of machines with high energy efficiency/ energy-saving electric machines, i. e. this will improve the operational characteristics and quality of produced machines. This financing will help the company to implement its investment program and is a prerequisite for increased production capacity in 2007.

ZMM Bulgaria Holding AD aims at attraction of new customers, stimulation of innovations by company and, if possible, concentration of this activity at a particular company with a view to provision of better potential and closure of inefficient units.

FURNITURE PRODUCTION

The furniture and wood procession sector in Bulgaria is assessed as successful, exclusively dynamic and limited at the same time. Based on international research data, Bulgaria ranks second among the countries from Central and Eastern Europe, occupying a growth of 22%. The sector also needs modernization, quick transfer of new technologies, modernization of facilities and use of modern materials. The focus is on quality products combining design and technology with tradition. In the last several years **Augusta Mebel AD** restructured its markets,



changed the range of offered products and increased its share in hotel equipment. Hotel equipment represents 72% of the production sold in 2006, while the share of household and other furniture is 28%. The development of new markets for the company is a permanent process – some 70% of the annual production represents new products – the applied technologies, used materials and design are updated.

The new customers attracted from the EU countries replaced the markets of the former Commonwealth of Independent States – Russia, Georgia, Azerbaijan, Uzbekistan, etc. The following companies have been major customers of the Company for the last several years: La Redoute – France /wardrobes and cabinets/, Mamas and Papas – Great Britain /nursery beds and cabinets/, Mountain Beech – USA /broad boards/ and Gilos – Greece /hotel furniture and household furniture – tables, cabinets and beds/. The EU markets stagnation and the mass penetration of cheap Chinese goods decreased the volume of sales in France and USA in the last two years. In 2006 contacts were established with new customers from France, Great Britain and Ireland; moreover, the hotel equipment produced for and forwarded to the Irish company Castlebrook forms 44.6% of the total sales of Augusta Mebel for the year. The Company relies on long-term partnership with its new customers and expects sale growth on these markets in 2007.

The production of large quantities of specimens and the fulfilment of individual orders increase production costs. With regard to its production intended for export, Augusta Mebel AD seeks to ensure the quality of furniture produced by leading European companies and to offer its products at higher prices. Most foreign customers require that the furniture be produced from high quality materials, usually including mass softwood, poplar or beech timber and quality facing. High quality of development is required, especially of furniture surface. With the purchase of new equipment for cutting out of laminated chipboard in 2004, the company started the production of home furniture and hotel furniture of lower price class. The purpose is offering products on the domestic market at more competitive prices.

Another factor, which influenced the income of Augusta Mebel AD in the last several years, is the increased demand for hotel furniture and equipment on the domestic market as well as in relation to the higher investment activity in the sector. The number of customers has been decreased against volumes. Each year the company invests in equipment and accessories to increase the quality of materials drying and procession /see *Item 5.2.1* and *Item 5.2.2* on page 19 and the following and 28 and the following/ and to produce quality products. In the last three years Augusta Mebel AD managed to establish strong positions on the highly competitive market in the country. In 2005 hotel equipment was produced and installed at the biggest hotel of Kempinski Zografski Chain on the Balkan Peninsula in Golden Sands, as well as kitchen equipment for Sunny Beach and Kranevo complexes. In 2006 Augusta Mebel AD fulfilled orders for furnishing of Tokouda Hospital in Sofia and smaller hotels. The projects were implemented in cooperation with Mebelni Kashti Ralitsa and Interservice Ouzounovi AD.

In 2007 models for an ethno hotel in Borovets and a hotel of the Hilton Chain in Ireland were made. In the summer a model room for the SAS Radisson Hotel in Sofia was made and installed under a customer project. An order is expected to be assigned.

➤ ***Significant changes in the operating income of the Issuer occurred during the period covered by the background financial information***

The factors influencing the significant changes in the net income of IHB Plc during the period covered by the background financial information are discussed in *Item 9.1.4. Overview of financial position* on page 90, as well as in the text of this section.



9.2.2 INFLUENCE OF INFLATION AND FLUCTUATIONS IN FOREIGN EXCHANGE RATES

➤ *IHB Plc*

To the extent IHB Plc has no production activity and the share of tangible assets of the Company is immaterial within its total assets, the inflation has no direct impact on the income and expenses of the Holding.

The influence of fluctuations in foreign exchange rates is expressed in the reported income, respectively expenses, resulting from such fluctuations. These are related to foreign currency gains/losses upon payments on:

- Transactions agreed in foreign currency;
- Loans to and from subsidiaries agreed in foreign currency;
- Contracts for issuance of bank and corporate guarantees in foreign currency in favour of subsidiaries to secure their liabilities;
- Foreign currency deposits.

The Company manages its foreign currency risk by maintaining its available funds in different currencies in a comparable proportion. Their amounts are determined by the priorities in the development of the Holding in mid-term aspect and by the outlined investment objectives described in the following items of this Registration Instrument: *Item 9.2.1. Information about material factors, including unusual and rare events or new developments which have material impact on the operating income of the Issuer, stating the level of impact on the income* on page 98, *Item 5.2.2.* on page 28, *Item 5.2.3.* on page 31, *Item 6.7* on page 53 and *Item 12.3* on page 128.

➤ *IHB Plc Group companies*

The last three financial years are characterized by relative stability of the USD exchange rate – USD 1 = BGN 1.50 on the average with slight fluctuations. The fluctuation of the exchange rates led to change in cash flows. The impact of exchange rate fluctuations on the volume of consolidated net sales is inconsiderable. The following table shows the figures as per the audited consolidated financial statements of the Group for 2004, 2005 and 2006.

Impact of exchange rate fluctuations on the Group's income on consolidated basis:

Income/ expenses	2006	2005	2004
Net gains/ losses on exchange rate fluctuations /in thousands of BGN/	778	(166)	(292)
<i>Share in % as compared to net sales income</i>	<i>0.58%</i>	<i>0.18%</i>	<i>0.59%</i>

In the preceding years of high devaluation of USD, **ZMM Bulgaria Holding AD Group companies** suffered the most considerable losses. The low USD rates and the restrictions on marketing behaviour as to high price rises in the last several years strengthened the USD-oriented markets against all other but under the conditions of a permanently falling selling price in BGN. The USD devaluation against the European single currency had a negative effect on the operations of **Mashstroy AD**, the sales in USD of which form 57% of the 2005 income of the company, which reduced to 51% in 2006 as a result of the USD “fall down”. Analogically, the share of income in USD of **ZMM Nova Zagora AD** decreased from 50% to 28% of the total sales, and those of **ZMM Sliven AD** – from 60% to 45% in 2006. At the same time the materials used for production of lathes represent mainly exported ones in EUR. The company's policy is directed at reduction of indirect costs and technological waste and increase of labour efficiency so as to compensate for the losses on sale due to the low USD exchange rate.

The negative impact of exchange rate fluctuations is increased by the conditions of the markets where the US currency is dominant. The political instability in Asia and the danger of war lead to unstable sales and efficiency of income from USD markets. The observed positive trends on the Indian market are quite vulnerable and



strongly dependent on the region stability. Following the rapid growth in and large volume of sales on the Turkish market, the demand inevitably decreased partially. At present these negative trends are under control but it is difficult to make long-term projections.

The conditions of the international market onto which ZMM Bulgaria Holding AD exports its machine building production do not allow material current change in USD prices /see *Item 9.2.1* on page 98/. In spite of this fact, the management of the machine building holding managed to partially re-agree the prices on some markets traditionally trading in USD. The price adjustment partially compensated for the USD fall down. ZMM Bulgaria Holding AD not only kept its market positions but also expand them at the expense of competition. The increased demand for machines on these markets allowed the improvement of production cycle efficiency, which partially compensated for the decreased sales income in BGN equivalency as a result of the low USD exchange rate. Another precaution measure against the USD exchange rate fluctuations is agreement of sales in all European countries to which the holding exports the production of its subsidiaries /excluding Turkey/ in EUR. .

The inflation had no material importance to the operating income of **Bulyard Shipbuilding Industry AD** due to its foreign trade orientation. The impact of exchange rate fluctuations has been optimized through conclusion of shipbuilding contracts in EUR/USD correlation corresponding to the ratio in which the basic materials and equipment of each new ship are agreed. The share of sales in USD in 2004 was 57.05% of the total sales of the company – these expenses formed 43.56% of the total expenses by economic element, the 2005 correlation is 11.72% against 9.98% and 19.94% and 13.98% in 2006. This correlation is planned to become even more balanced. Regretfully, this sector usually settle new ship payments in USD /in consideration of the fact that gains from charters are in USD/, and most suppliers readjusted their prices in EUR.

The decrease of the equivalency of **USD** and **GBP** in BGN has a negative impact on the sales income of **Augusta Mebel AD**. Upon determination of offer prices of furniture requested by customers, usually higher exchange rates are set while no adjustment of prices confirmed by customers is made. This decreases the return on products and volumes of orders of some customers – decreased sales are reported in France and USA and the result from products intended for Great Britain is reduced. Actions have been undertaken for overcoming of the negative impact of exchange rates – re-agreements of selling prices for Great Britain, agreement of some export prices of production intended for USA in BGN regardless of the exchange rate. The 2006 income from sales in USD forms 3.6% of the total income of Augusta Mebel AD as compared to 3.5% in 2005, and in GBP – 9.8% and 27% respectively. On the other hand, the low USD exchange rate predetermined some changes concerning the raw material and material markets. Business contacts were established with Turkish companies, the quality products of which are nominated in USD.



9.2.3 INFORMATION ABOUT GOVERNMENT, ECONOMIC, TAX, FISCAL, MONETARY OR POLITICAL FACTORS WHICH HAD DIRECTLY OR INDIRECTLY, MATERIAL IMPACT OR WHICH MIGHT HAVE, DIRECTLY OR INDIRECTLY, MATERIAL IMPACT ON THE OPERATIONS OF THE ISSUER

➤ *IHB Plc*

IHB Plc operations are subject to the effective governmental, economic, tax, monetary and political factors influencing all business entities in the country. The following main barriers related to the business environment have negative impact:

- Gaps in the effective legislation and amendments to legal provisions on frequent basis;
- Presence of a number of regulatory regimes;
- Large volume of documents and long periods of issuance procedures;
- Application of “double standards” to the small and medium-sized businesses;
- Ineffective judicial system;
- Insufficiently competent administration;
- Lack of strict supervision of the activities of the state and municipal administration.

As a public company the Holding carries out its operations in compliance with the Law on Public Offering of Securities and all regulations related to its implementation. The development of the capital market in Bulgaria and its regulatory framework and the adoption of clear rules for conduct have positive impact on the overall activity of the Company.

➤ *IHB Plc Group companies*

The mentioned factors also influence the Group’s subsidiaries to the extent they form their development macro-frame.

For example, the basic activity of **Elprom ZEM AD** is related to the development, production, supply and installation of a wide range of rotating electric machines, on the one hand and their repair, on the other hand. The market strongly depends on world economy, the state of the Bulgarian economy and the region in particular. The following factors positively influence the increase in the income from production and repair of hydro-generators:

- The sector where the product is used is one of the State’s strategic priorities;
- The intensive investment activity of the energy sector, a hydro-generator consumer, in the form of activation of the program for rehabilitation of the country’s energy system hydro-generators as part of the actions undertaken by the government in relation to the accession of Bulgaria to the European Union;
- The stabilization of the country’s macro-economy which led to activation of investment operations and attraction of foreign investments;
- The program for rehabilitation of hydro-generators property of NEC AD;
- The change in the State’s strategy concerning its energy policy in the form of priority stimulation of ecological power generation through renewable energy sources, including water power plants;
- The possibility for agreement of repairs of private water power plants, which allowed Elprom ZEM AD to penetrate on the market of private power producers and reduce its dependence on NEC AD as a major customer.

Following the abrupt market reduction for the states of the former Soviet Union, over the last years there is a great interest in the metal cutting machines produced by **Mashstroy AD** and **ZMM Sliven AD**. In the preceding year **ZMM Nova Zagora AD** also came back at this market through import of strip cutting machines. In 2006 the company introduced the production of feed and support boxes for metal cutting machines intended for sale on the Russian market as of 2007.



The high custom duties for import of goods from Bulgaria to Russia resulted in abrupt decrease in the volume of sales of **August Mebel AD** in this traditionally favourable for the company sector to absolute inactivity since 2002 till present date. **Elprom ZEM AD** also incidentally exports. After 2003 there is no realization for this region.

The 2006 **European furniture industry** is characterized by a higher foreign trade deficit. The import of Chinese furniture significantly increased. Measures have been undertaken with a view to reducing the prices of furniture imported from EU and raising the prices of furniture imported by countries outside EU. The European producers assess design as a material argument for sale volumes, which requires its preservation and special attention upon allocation of funds for research and development activities. The 2007 projections envisage increase in international furniture trade and this is related to the rapidly changing requirements concerning furniture, including both design and materials.

Since 2004 various amendments to the Law on Maritime Space, Inland Waterways and Ports of the Republic of Bulgaria have been made, thus enabling Dockyard Port-Bourgas AD to obtain a status of a public transport port of regional importance and a license for port operations, the scope of which was expanded in February 2007 with procession of harmless general and liquid freights and bulk freights of plant origin, including loading and unloading, customs procession and bonded warehouses. In December 2006 the company obtained a Port Operations Certificate under ISO 9001:2000 by SGS. The commenced project for extension of the port terminal is described in detail in *Item 5.2.3* on page 31.

Odessoss PBM AD, which is a registered port operator for procession of general and bulk freights and containers, has developed as Dockyard Port-Bourgas AD.

IHB Plc was a member of **Transbalkan Oil Pipeline Bulgaria AD** - Sofia, an investment consortium which was established for the purpose of construction of the Bourgas – Alexandroupolis petrol pipeline. As the consortium failed to achieve the purpose of its establishment, the General Meeting of Shareholders decided to declare the company in liquidation proceedings at a session held in October 2006.

In respect of the future activities of IHB Plc and the Group's companies, Bulgaria's commitments related to the accession to the European Community should be taken into account, such as the processes related to approximation of the legislation and standards with the EU ones, the requirements on additional product certification, more comprehensive coverage of the ecological requirements on the production processes, strengthened pressure and control by the State in relation to provision of compliance of the labour conditions and safety with the applicable provisions, the requirements related to the social security of employees, increase of salaries, etc. The change imposes certain obstacles in the transitional period and requires reorganization of equipment supplies from the EU countries. Following Bulgaria's accession, some inconsistencies and gaps in the regulatory framework concerning duty free zones, VAT, new requirements on raw materials supply quotas, custom duties, increased costs of raw materials from third parties and other, appeared.

The Holding's companies have been awarded financing under various state fund programs:

- Bulgarian Register of Shipping AD – National Innovation Fund for a scientific and applied research project (2005)
- Elprom ZEM AD – National Innovation Fund for a scientific and applied research project (2006)
- Leyarmach AD – Labour Conditions Fund (2004)
- Elprom ZEM AD – Labour Conditions Fund (2005; 2007)
- Bulyard Shipbuilding Industry AD – Labour Conditions Fund (2006)

As a source of financing of various economic events may be used the funds under governmental and EU structural fund programs for the period 2007-2013, particularly the funds granted under the Human Resources Development and Development of Bulgarian Economy Competitiveness Operational Programs. They will support actions related to increase in employment rate, provision of better job opportunities, improvement of education level, increase of production capacity and efficiency of the companies in the country, facilitation of the access to



financing, stimulation of business and development of knowledge and innovation based economy through encouragement of scientific research and innovation. The projects under the operational programs are expected to start in the second half of 2007.



10 CAPITAL RESOURCES

10.1 INFORMATION ABOUT THE ISSUER'S CAPITAL RESOURCES

The Holding avails with the following capital resources:

- Equity: the independently generated cash flows from the operations of the Holding, issuance of shares /capital increase/;
- Borrowed funds: the possibility for utilization of bank loans, leasing and grant schemes, loans from associates and issuance of bonds.

IHB Plc has used the possibility provided for under Article 280 of the Law on Commerce to grant to subsidiaries and to accept loans from subsidiaries, which allows it to operate, on temporary basis, with the free cash within the Group and to utilize it more effectively.

Until 2004 the Holding did not need to use bank loans and financed its operations with 100% own funds. The capital increase through the issuance of a new issue of shares of IHB Plc in 2002 contributed for the financial independence during that period.

In **2004** the Holding commenced the implementation of three large projects in fulfilment of its investment strategy:

- One in the sector of building and ship repair and other vessels building and repair – for joint utilization of the production assets of Varna Shipyard, in bankruptcy; and
- Two in the sector of real estates – construction of Kolokita Villa Estate near Sozopol through its subsidiary Privat Engineering AD and for the acquisition of 75% notional parts of real estate located in Shkorpilovtsi – Izgrev Horizont Resort Complex through another of its subsidiaries – KLVK AD.

Some of the funds for the first project were secured through a loan from DSK Bank EAD at the amount of USD 2 million, which loan was repaid early at the end of **2005**. The other two projects are part of the Holding's policy for investment in real estates. To implement these and other investment projects of material importance for the IHB Plc operations in mid-term aspect, in 2004 the Holding issued the first issue of corporate convertible bonds in Bulgaria at the amount of BGN 5 250 805.

The basic characteristics of the issue of **corporate convertible bonds** issued on 2 July 2004 are as follows:

- *Type and class of securities* – convertible, dematerialized, registered, freely transferable, interest-bearing, unsecured bonds;
- *Total nominal value of the issue* – BGN 5 250 805;
- *Total issue value of the issue* – BGN 5 250 805;
- *Number of bonds* - 5 250 805;
- *Nominal amount of 1 bond* – BGN 1;
- *Issue value of 1 bond* – BGN 1;
- *Repayment schedule* – the debenture loan is repaid in the form of one-off payment or through conversion of the bonds into shares. Portion of the principal of the debenture loan or the total loan may be repaid through conversion of the bonds into shares by a due decision of the General Meeting of Shareholders of IHB Plc. The remaining portion of the loan principal, which is converted into shares, may be made as a single transaction on maturity of the debenture loan together with the last sixth interest payment;
- *Term to maturity of the debenture loan* – 36 months as of debenture loan date.
- *Maturity* – 2 July 2007;
- *Interest rate* - 6 % per annum;
- *Interest payment frequency* - 6 interest payments to maturity, payable twice a year every 6 months;



- *Interest payment maturity dates* – 25 January 2005, 25 July 2005, 25 January 2006, 25 July 2006, 25 January 2007 and 2 July 2007. No partial interest payments are allowed. As at 31 December 2006 four out of the total six interest payments were made;
- *Ratio between the rights granted under § 1, Item 3 of the Law on Public Offering of Securities and one bond* – against all four rights granted by the held 4 /four/ shares of the Company's capital the shareholders and the third parties who acquired rights through an open auction, subscribed one bond with the rounding to the lower round figure. All bond subscription rights have been exercised;
- *Collateral* – the debenture loan is not secured;
- *Investment intermediary servicing the issue* – Commercial Bank Allianz Bulgaria AD.

On 1 June 2007 the General Meeting of Shareholders adopted a decision on increase in IHB Plc capital through conversion of all bonds into ordinary shares. The conversion ratio is 1 /one/ bond to 1 /one/ share on the maturity date of the debenture loan. Within this term all bond holders exchanged their bonds for shares. On 19 July 2007 Sofia City Court registered the capital increase from BGN 21 003 235 to BGN 26 254 040. The funds have been used for financing of various investment projects.

IHB Plc capital sources **in 2006** were:

- Internally generated capital resources: the 2006 good operating results of the Group's companies and the 2005 profit;
- Loan capital: free cash of IHB Plc, raised through the bond issue.

The loans granted by IHB Plc to two subsidiaries in relation to projects in the real estate sector were fully repaid. This allowed the redirection of these funds to other priority projects in 2006 and the current 2007.

In 2006 IHB Plc Group subsidiaries used own funds, advance payments by customers, issued letters of credit, leases, bank loans and in-financing through inter-group loans to cover their expenses.

At the end of 2006 IHB Plc signed a contract with DSK Bank EAD for granting of credit limit for issuance of bank guarantees and working capital financing of the Holding and/ or the Group's companies at the amount of BGN 4.5 million, up to BGN 3 million of them under the form of revolving loan. As at present the liability of IHB Plc is contingent but the Management will use the option to finance the operations of the holding company, if necessary.

IHB Plc has contingent liabilities in the form of avals of promissory notes and corporate guarantees arising in relation to operations of the group companies. They are as follows:

As at 31 December 2006 IHB Plc has provided guarantees for the liabilities of group companies to CB Allianz Bulgaria AD in the form of **avals of promissory notes** at the total amount of BGN 214 thousand to secure performance bonds.

In 2005 IHB Plc ensured the issuance by DSK Bank EAD of bank guarantees at the amount of BGN 671 thousand to secure the liabilities of Elprom ZEM AD to a customer. At the end of 2006 the same Bank concluded a contract for granting credit limit for issuance of bank guarantees and working capital financing to the Holding and/ or its Group's companies at the amount of BGN 4.5 million, up to BGN 3 million of them under the form of revolving loan. The two contracts are secured by second special pledge of the business of Dockyard Port - Bourgas AD, Bourgas, a subsidiary of IHB Plc, as totality of rights, obligations and factual relations. As at 31 December 2006 there are no bank guarantees issued against the credit limit. As at 30 June 2007 there are two bank guarantees issued by DSK Bank AD – one at the amount of BGN 100 thousand in favour of Regional Customs Directorate – Bourgas to secure potential customs liabilities of Dockyard Port-Bourgas AD in relation to a bonded warehouse type A located on its territory and one at the amount of EUR 339 thousand in favour of Elprom ZEM AD to secure an advance payment under a contract signed with an Indian customer.



On the basis of a decision of the General Meeting of Shareholders, in June 2006 IHB Plc issued a **corporate guarantee** of EUR 4 280 850 and USD 3 729 018 to secure the third advance payment received from Bulyard Shipbuilding Industry AD for the building of ship with construction No 516. As a result of fulfilled obligation by the shipyard to the ship buyer Varna Maritime Ltd, the guarantee was closed on 15 December 2006.

On 15 November 2006 IHB Plc issued a **corporate guarantee** of EUR 3 433 424 and USD 2 977 531 to secure the third advance payment of the buyer Georgi Maritime Ltd for ship with construction No 457. In April 2007 the guarantee was closed following performance of the shipyard's obligations to the buyer.

In July 2007 IHB Plc issued a **corporate guarantee** EUR 4 211 942 and USD 3 595 434 to secure the third advance payment of the buyer Alexander Maritime Ltd for ship with construction No 515. The guarantee is secured by pledge of real property of Bulyard Shipbuilding Industry EAD.

The Management of IHB Plc believes that no indications exist that the above-mentioned liabilities would not be fulfilled, therefore no contingent liability provisions have been set aside.

IHB Plc Group companies has obtained bank loans and undertaken contingent liabilities as follows:

The bank credits are also secured by promissory notes issued in favour of:

- Raiffeisenbank /Bulgaria/ EAD and Commercial Bank Allianz Bulgaria Ad at the amount of EUR 5 million under the second contract for syndicated revolving credit signed with Bulyard Shipbuilding Industry AD on 17 October 2006 to secure the financing of payments to suppliers through direct bank transfers and issuance of letters of credit and bank guarantees. The credit limit is EUR 5 million and is to be repaid by 25 April 2009. The avals of the promissory notes are provided by Bulyard AD and
- United Bulgarian Bank AD, Raiffeisen /Bulgaria/ EAD and Commercial Bank Biochim AD at the total amount of BGN 1 263 thousand from ZMM Sliven AD, Leyarmach AD and Elprom ZEM AD, all avals being provided by ZMM Bulgaria Holding AD – *see below*.

Bulyard AD is liable jointly with Bulyard Shipbuilding Industry AD as a third party /"co-debtor"/ under two contracts for **investment credit** signed with SG Expressbank AD – Sofia Office - one for the amount of EUR 1 million signed in 2006 and one for the amount of EUR 1 million signed in 2007.

On 26 July 2005 Bulyard Shipbuilding Industry AD signed a contract with two Bulgarian banks for a syndicated revolving credit to secure the issuance of **bank guarantees** for advance payments of customers. The credit limit is EUR 12 500 thousand and USD 10 900 thousand. The repayment term is 25 July 2009. On 27 March 2006 the credit limit was increased to EUR 12 505 thousand and USD 11 015 thousand respectively. As at the same date there are 9 issued guarantees within the credit limit for bank guarantees of Bulyard Shipbuilding Industry EAD at the total amount of EUR 11 982 thousand and USD 9 670 thousand /approximate value in BGN – BGN 34 077 thousand/. As at 31 December 2006 the bank guarantees are also secured by promissory notes at the value of EUR 13 537 thousand and USD 5 702 thousand, the avals being provided by Bulyard AD and individual participation of the principal shareholders.

In relation to the signature of new contracts for construction of ships, the credit limited for bank guarantees will be increased.

The collaterals, provided by ZMM Bulgaria Holding AD as at 31 December 2006, **to secure liabilities of its subsidiaries to banks and third parties** as follows:

- Under bank loans – in the form of avals of promissory notes in favour of United Bulgarian Bank AD, Raiffeisenbank /Bulgaria/ EAD and Commercial Bank Biochim AD at the total amount of BGN 1 263 thousand, including ZMM Sliven AD – BGN 792 thousand, Leyarmach AD – BGN 396 thousand and Elprom ZEM AD – BGN 75 thousand;



- Under a bank guarantee contract – in the form of aval of promissory note at the value of BGN 98 thousand /EUR 50 thousand/ for issuance of a bank guarantee by Commercial Bank Bulbank AD to Elprom ZEM AD to NSK Polska;
- To third parties in relation to undertaken obligations under signed contracts – in the form of avals of promissory notes at the amount of BGN 782 thousand to NEC with respect to fulfilment of orders of Elprom ZEM AD under the Law on Public Procurement.

The management of ZMM Bulgaria Holding AD believes that no indications exist that the above-mentioned liabilities would not be fulfilled, therefore no contingent liability provisions have been set aside.

**10.2 ASSESSMENT OF THE ISSUER'S SOURCES AND CASH FLOWS****Cash flow statement – indirect method /on consolidated basis/:**

(in thousands of BGN)	June 2007*	June 2006*		2006	2005	2004
Operating cash flow						
Net profit for the year	7,486	6,649		11,036	31,549	7,662
<i>Adjustments for:</i>						
Amortization and depreciation	2,199	1,871		3,903	2,855	1,666
Provisions		0		1,685	1,378	100
Foreign exchange loss (gains), net	(76)	(622)		(778)	166	292
Interest expenses	652	261		628	673	571
Interest income	(366)	(635)		(1,280)	(438)	(147)
(Gains)/loss of associates	(767)	(26)		(1,972)	(1,416)	(2,938)
(Gains)/loss on sale of shares in subsidiaries	0	0		(549)	283	-
(Gains)/loss on sale and writing-off of property, plant and equipment	(227)	(256)		(1,541)	(20,469)	417
Loss/(gains) on sale of investments available for sale	0	0		(6)	(6,828)	-
Loss/(gains) on sale of investments held for trading	(10)	(7)		(338)	134	-
Profit tax expenses	637	1,058		1,789	4,180	803
Minority interest						232
Goodwill amortization						(600)
Operating profit prior to changes in working capital and provisions	9,528	8,293		12,575	12,067	8,058
(Increase)/decrease in trade and other receivables	(8,131)	(17,543)		(12,963)	(28,852)	1,128
(Increase)/decrease in inventories	(31,530)	(5,394)		(19,355)	(3,105)	(1,054)
Increase/(decrease) in trade and other payables and provisions	10,121	4,493		2,997	21,871	(2,229)
Operating income (payments)	(20,012)	(10,151)		(16,746)	1,981	5,903
Interests paid	(650)	(347)		(370)	(381)	(382)
Corporate taxes paid				(4,664)	(1,462)	(608)
Operating cash flow	(20,662)	(10,498)		(21,780)	138	4,913
Investment cash flow						
Income from sale of tangible non-current assets	263	14,843		22,950	13,579	178
Income from sale of shares in subsidiaries				766	339	-
Interests received	209			1,280	438	147
Acquisition of subsidiaries, net of acquired cash amount				-	(7,725)	-
Income from sale of investments available for sale				34	7,928	-
Income from sale of investments held for trading	433			287	639	-
Income from sale of investments in associates				327	-	-



Acquisition of associates				-	(1,600)	(6,773)
Acquisition of non-current assets	(1,629)	(1,705)		(4,160)	(2,075)	(5,740)
Acquisition of minority interest	(889)	(527)		(1,509)	-	-
Acquisition of other investments				-	(2,083)	-
Dividends received				-	1,526	1,584
Total investment cash flow	(1,613)	12,611		19,975	10,966	(10,604)
Financial cash flow						
Income from issuance of share capital		-		-	-	-
Loans received	16,698	1,977		9,955	2,059	9,611
Loans repaid	(6,017)	(1,088)		(2,850)	(5,438)	(1,189)
Loan granted	(289)	(1,592)		(6,259)	-	-
Granted loans repaid	5,673					
Payments under lease contracts	(157)			-	(65)	-
Other financial expenses made	(99)	(73)		(637)	(1,109)	-
Dividends paid	(273)	(267)		(286)	(179)	-
Total financial cash flow	15,536	(1,043)		(77)	(4,732)	8,422
Net increase in cash and cash equivalents	(6,739)	1,070		(1,882)	6,372	2,731
Cash and cash equivalents as at 1 January	12,593	14,475		14,475	8,103	5,372
Cash and cash equivalents as at 31 December	5,854	15,545		12,593	14,475	8,103

* The data for June 2006 and June 2007 are preliminary and unaudited.

Information about the Issuer's sources and cash flows by major categories for each financial year of the period covered by the historical financial information and the period covered by the last financial statements.

➤ *Operating cash flow*

The dynamics of the operating cash flow over the last three financial years and the period covered by the last financial statements has been mostly influenced by the consolidation of the activity of Bulyard Shipbuilding Industry AD in June 2005. Due to the specifics of the company's operations, **the receivables from clients** are made payable in instalments within the ship building period (usually two or more years), while **the payments to suppliers** are made on regular basis. In 2005 Bulyard Shipbuilding Industry AD signed 5 shipbuilding contracts. In this relation, in 2006 the average number of the company's employees as per list was 38% and the total amount of remunerations – BGN 4.4 million. The increase in the amount of corporate taxes paid of BGN 608 thousand in 2004 to BGN 4 664 thousand in 2006 also had an impact.

The trend related to the operating cash flows is also supported by **the cash turnover cycle** indicator – it changed from 60 days in 2004 to 144 days in 2005 and 174 days as at the end of 2006 as a result of the significant prolongation of the average period for receivables receipt (from 32 days to 90 days for the period covered), on the one hand and the double shortening of the period for payments execution (from 66 days to 34 days), on the other hand.

➤ *Investment cash flow*

The net investment flow in the period has been influenced by the following major events by sub-items:



Income from sale of non-current assets

2005

- Sale of an estate in Shkorpilovtsi Village by KLVK AD at the price of BGN 6.9 million;
- Sale of plant and equipment by Bulyard Shipbuilding Industry AD at the price of BGN 4.2 million;
- Receipt of the first instalment at the amount of BGN 1.395 million in relation to the sale of an estate in Sozopol by Privat Engineering AD.

2006

Receipt of the second and last instalment at the amount of BGN 22.366 million in relation to the sale of an estate in Sozopol by Privat Engineering AD.

Acquisition of non-current assets

2004

Purchase of land by KLVK AD in Shkorpilovtsi Village at the price of BGN 3.468 million.

2005

Capital expenditure in relation to the improvement of a real estate in Sozopol at the value of BGN 1.326 million incurred by Privat Engineering AD.

2006

Expenses related to purchase of plant and equipment incurred by Bulyard Shipbuilding Industry AD (BGN 1.911 million) and by Dockyard Port-Bourgas AD (BGN 1.087 million).

Income from sale of investments

2004

IHB Plc sold 761 090 shares of the capital of Elprom ZEM AD (62.76% of the company's capital) to ZMM Bulgaria Holding AD with the purpose of restructuring the portfolios within IHB Plc Group. In 2004 IHB Plc sold all its shares (3 206) held in the capital of Sheraton Sofia Balkan AD and 7 667 shares held in the capital of Dockyard Odessoss AD.

2005

The most important operation in 2005 was the sale of all 100 shares held in the capital of Dockyard Odessoss AD by IHB Plc at the total value of BGN 7 881 thousand.

2006

In May 2006 IHB Plc sold the remaining 430 489 shares, representing 25.86% of the capital of Chimremontstroy AD by virtue of a contract signed with Chimremontstroy Engineering AD. The transaction value is BGN 600 thousand, payable in instalments. By virtue of a contract signed on 15 February 2006, IHB Plc sold its 39 349 materialized shares, representing 17.99% of the capital of Elpo AD. The transaction value is BGN 128 thousand, payable in instalments. In 2006 8 233 shares held in the capital of Bulgartabac Holding AD were sold at the total price of BGN 288 thousand. The average price per share less the sale costs is BGN 34.82.



Acquisition of investments

2004

In 2004 IHB Plc made no investments in new companies. The investments were directed at increase in the interests in some of the companies, the largest one being the participation in the increase in the capital of Bulyard AD from BGN 50 thousand to 24 019 thousand, in which IHB Plc subscribed 5 992 245 shares of the total value of BGN 5 992 245. The remaining shareholders participated in the increase pro rata so as the shareholding structure may be preserved (25% for IHB Plc). Bulyard AD used the funds raised through the capital increase to acquire 75% of the capital of Bulyard Shipbuilding Industry AD – the company where the assets of the former Varna Shipyard were contributed.

2005

The largest investment made by IHB Plc in 2005 is the participation in the increase in the interest in Bulyard AD. In February 2005 IHB Plc acquired 2 762 183 shares, representing 11.5% of the capital of Bulyard AD and its interest in the company reached 36.5%. Two months later IHB Plc acquired further 3 602 847 shares, representing 15% of the capital, as a result of which it holds 51.50% of the shares of the company's capital and control over Bulyard Shipbuilding Industry. The investment of IHB Plc in Bulyard AD in 2005 amounts to the total of BGN 8 302 thousand.

In March 2005 IHB Plc invested in Odessoss PBM. The company holds a license for port of regional importance and has capital of BGN 5 280 000 and scope of activity including port operations and accompanying activities on and off ships and land vehicles. The other shareholders are Dockyard Odessoss, Plasco Investments Limited and Electromachinery Holding. IHB Plc holds 30% of Odessoss PBM at the value of BGN 1 584 thousand.

2006

By virtue of a contract signed with Dockyard Odessoss AD on 28 March 2006, IHB Plc acquired 2 401 898 voting shares, representing 10% of the capital of Bulyard AD. Dockyard Odessoss AD terminated its participation in the capital of Bulyard AD, while IHB Plc interest in the company's capital reached 61.50%. The transaction value is BGN 3 120 thousand, payable in instalments, BGN 1 402 thousand of which was paid during the year.

➤ *Financial cash flow*

Loans received

2004

In 2004 IHB Plc issued an issue of convertible bonds at the value of BGN 5 250 805. The income from sale of rights amounts to BGN 116 thousand. The funds raised through the issue were used for investments in the real estate, shipbuilding and ship repair sectors.

IHB Plc was granted a loan of USD 2 million by DSK Bank EAD.

2005

Loans received from some Holding's subsidiaries, each amounting to a sum less than BGN 1 million.

2006

The basic portion of loans received represents bank loans granted to Bulyard Shipbuilding Industry AD at the total amount of BGN 8.145 million and a loan of BGN 1.050 million granted to Bulkari EAD by a non-financial institution.



First half of 2007

- Loans at the total amount of BGN 5.8 million granted by non-bank institutions;
- Bank loans at the total amount of BGN 10.9 million.

Loans repaid

2004

IHB Plc repaid its loan to DSK Bank EAD at the amount of BGN 513 thousand and related charges and interests at the total amount of BGN 153 thousand. Some subsidiaries also made loan repayments during the year.

2005

IHB Plc repaid its loan to DSK Bank EAD at the amount of BGN 2.657 million. Some subsidiaries also made repayments of smaller amounts during the year.

2006

Repayment of a loan, granted at the amount of BGN 1.050 million in 2006, by Bulkari EAD.

First half of 2007

- Repaid loans granted by non-bank institutions at the total amount of BGN 1.473 million;
- Repaid bank loans at the total amount of BGN 4.544 million.

Loan granted

2006

Privat Engineering AD granted Dounav Tours AD, an associate, a loan at the amount of BGN 6.259 million.

Granted loans repaid

First half of 2007

Dounav Tours AD, an associate, repaid loans at the total amount of BGN 5.673 million granted by ZMM Bulgaria Holding AD and Privat Engineering AD,

Till 2004 the basic positive cash flows of the Holding were generated from:

- Operating cash flows of the Holding's companies;
- Income from transactions with investments;
- Interest income in relation to interest-bearing receivables from other companies in respect of deferred payments under share sale agreements and interest income under deposits;
- Income from rendered services and others.

To secure its investment program in mid-term aspect for the first time in its history the Holding used **borrowed funds** in 2004 in the form of:

- Bank loan of USD 2 million from DSK Bank EAD and
- Debenture loan – IHB Plc issued corporate convertible bonds with a total nominal value of BGN 5 250 805.



The priority investment projects are carried out in the order of their timing. IHB Plc **finances the investment projects of its group companies** which are related to the priority sectors – real estates /till the end of 2005/, maritime business, river cruises and machine building under the form of loans and/ or acquisition of shares in their capitals, including subscription of capital increase shares. The loans granted in 2004 and 2005 have been fully repaid by the subsidiaries and the available funds are used from IHB Plc for granting new loans in 2006 and 2007 and investment purposes or are intended for investing in separate projects based on the stage of development and need of financing.

The major investment projects of the group companies, financed by IHB Plc during **2004-2006**, are as follows:

- Investments in real estates – stage-by-stage loans granted to KLVK AD – BGN 3 532 thousand and to Privat Engineering AD – BGN 1 428 thousand in 2004 and 2005. Following the sale of the purchased real estates in 2005 and full repayment of borrowed funds by the two subsidiaries, IHB Plc suspended the investments in this sector. The accelerated realization of these investments decreased the risk of change in the market environment and allowed the redirection of free funds to other priority sectors and projects in 2006 and 2007;
- In August 2006 the Holding financed the second advance payment for ship No 288 – the first of the two multi-purpose ships of the Group under the form of a loan of USD 480 thousand granted to Privat Engineering. As at 31 December 2006 the remaining amount due under the loan was USD 55 thousand, which is repaid as at the date of this Registration Instrument;
- In March 2006 IHB Plc granted to Dockyard Port - Bourgas AD a loan of BGN 110 thousand for construction of a new road to the port, which was repaid. During the second half of the year the company received from the Holding new financing of EUR 224 thousand under the project for extension of the port terminal and purchase of equipment. As at the date of this Registration Instrument both loans are repaid;
- At the beginning of 2006 IHB Plc granted a loan of BGN 600 thousand to ZMM Bulgaria Holding AD to support the company in its participation in the privatization of Balkancar - Sredets AD, Sofia. In January 2006 the Privatization Agency initiated procedure for sale of 69.99% of the capital of this company at the minimum price of BGN 20 million. For the purpose ZMM Bulgaria Holding AD established its 100% subsidiary Bulkari EAD to participate in the publicly announced tender – it classified second. In July 2006 the Holding's funds were repaid;
- In September 2006 IHB Plc granted a loan of BGN 120 thousand to Elprom ZEM AD, a subsidiary of its subsidiary ZMM Bulgaria Holding AD, with maturity date – 31 March 2007. At the end of 2006 the amount due was BGN 57 thousand. The funds are intended for temporary financing of the operations of Elprom ZEM AD in relation to undertaken contractual obligations and are repaid as at the date of this Registration Instrument.

Own funds depending on the amount of investment required and the cash available at the particular time have been used for some of the priority investment projects in addition to the funds raised through the bond issue. The used forms of investment financing and the movement of the free cash of the Holding make it difficult to precisely determine the disbursed bond issue funds under the individual projects, part of which undergo certain changes.



10.3 INFORMATION ABOUT THE ISSUER'S NEEDS OF LOANS AND STRUCTURE OF FINANCING

The amount and structure of IHB Plc indebtedness, on unconsolidated basis, as at 30 June 2007 are as follows:

No	Liabilities	Amount, BGN'000
1.	Total long-term payables, including:	2 824
1.1	Payables to related companies	2 824
2.	Total short-term payables, including:	8 081
2.1	Trade and other payables	6 099
2.2	Payables to related companies	1 975
2.3	Tax payables	7
Total liabilities		10 905

The amount and structure of IHB Plc indebtedness, on consolidated basis, as at 30 June 2007 are as follows:

No	Liabilities	Amount, BGN'000
1.	Total long-term payables, including:	15 494
1.1	Loans	13 337
1.2	Trade and other long-term payables	187
1.3	Provisions	839
1.4	Deferred tax payables	1 131
2.	Total short-term payables, including:	71 416
2.1	Loans	6 993
2.2	Other payables	64 381
2.3	Provisions	42
Total liabilities		86 910

At this stage most subsidiaries do not plan material changes in the utilization of borrowed external funds required for carrying out of their operations – mainly bank loans for working capital financing and financing of investment events, including lease and grant schemes.

IHB Plc supports the efforts of its group companies to borrow funds from banks for investments and using the options provided by revolving working capital loans for production purposes. The amounts of such borrowed funds are maintained at particular levels and granted following proving of the economic efficiency of each company. On the other hand, borrowed funds improve liquidity and are necessary for ensuring production growth. At the same time the Holding takes into account the fact that the available machinery fleet and the dynamic market in the conditions of constantly rising prices of raw materials result in certain instability of cash flows and return on production. This imposes the pursuit of a more conservative policy on borrowing loans from banks for the Group's investment activities. Therefore, the policy pursued by IHB Plc Management is directed at acquisition of fresh market resources in the form of shares, bonds or other similar instruments for investments in the subsidiaries.



IHB Plc incurs capital expenses in two directions: granting of loans to its group subsidiaries to finance their projects and acquisition of shares in their capitals, including subscription of shares upon capital increase. The sources of financing of investment events over the last three years and the current 2007 are described in *Item 5.2.1* and *Item 5.2.2* on page 19 and the following and on page 28 and the following. The manner of financing of planned significant investments for which material commitments have been made is given in *Item 5.2.3* on page 31. The need of new loans for investment purposes may arise in relation to the plans described in *Item 12.3. Material plans related to operations* on page 128. Information about the structure and financing of the Group's activities is also given in *Item 10. Capital resources, IHB Plc Group companies* on page 112 and the following.

10.4 INFORMATION ABOUT ANY RESTRICTIONS ON THE USE OF CAPITAL RESOURCES WHICH HAD OR MIGHT HAVE DIRECT OR INDIRECT IMPACT ON THE ISSUER'S OPERATIONS

The only restriction on use of capital resources is set forth in *Article 280 of the Law on Commerce* and is binding on IHB Plc as a holding company. In compliance with this Article:

- (1) The holding company may grant loans only to companies where it has direct interests or control.
- (2) The amount of granted sums may not exceed the capital of the holding company by 10 times.
- (3) The amount of deposits from the subsidiaries and companies within the Holding's group may not exceed the capital by 3 times.

10.5 INFORMATION ABOUT PROJECTED SOURCES OF FUNDS REQUIRED FOR OBSERVANCE OF THE COMMITMENTS SPECIFIED IN ITEMS 5.2.3 AND 8.1, I. E. ABOUT MAJOR FUTURE INVESTMENTS FOR WHICH COMMITMENTS HAVE BEEN MADE AND SIGNIFICANT TANGIBLE NON-CURRENT ASSETS HAVE BEEN PLANNED

Information about expected sources of funds for future investments for which commitments have been made and significant investments have been planned is given in *Item 5.2.3* on page 31.



11 RESEARCH AND DEVELOPMENT ACTIVITIES, PATENTS AND LICENSES

➤ *IHB Plc*

IHB Plc carried out no development activities over the period covered by the historical financial information.

➤ *IHB Plc Group companies*

IHB Plc Group companies have been permanently carrying out development activities as to their products and technologies. The most innovation efforts of the teams are directed at improvement of offered products and certain processes of their development through use of modern materials and technologies.

MARITIME BUSINESS

Shipbuilding

The two ships named Emona and Marciana will be the improved design version of ship with construction No 283 – more modern and of greater containers capacity. They are in process of development under a Bulgarian project, involving experts from the Technical University in Varna.

Classification and certification

The technology for inspection and classification of ships and a web-based system for inspection management, which is going to be developed by **Bulgarian Register of Shipping AD** by the end of 2007 under a contract signed with the Small and Medium-Sized Enterprises Promotion Agency /see *Item 5.2.2* on page 28 and the following/, will be the result of the research and development activities of the company's team and top experts in this field from the Technical University in Varna. In this sense, it will be a know-how bearer but it is not subject to registration in compliance with the Law on Copyright and Adjacent Rights.

MACHINE BUILDING

The companies within ZMM Bulgaria Holding AD group offer on the market ranges of basic products, which are expanded through improvement and further development on annual basis. **At Mashstroy AD and ZMM Sliven AD** there are developments in progress for improvement of the offered universal lathes with respect to expansion of the range of heavy machines, models with increasing of centre distance with over 5 m and offering of machines with lighter mandrel opening, the range of CNC machines and development of machines with cyclic program operation.

In 2004 **ZMM Nova Zagora AD** built a mechanical unit for new products – piston rods. Over the last two years the company expanded its range of strip cutting machines, including new ones.

Leyarmach AD mastered the spheroidal-graphite cast iron technology.

Elprom ZEM has been developing and will deploy a new technology for insulation of rods for hydro-generators. The development of a new insulation system for high voltage stator windings for hydro-generators by the experts of the Company and Isovolta – Austria in 2003-2004 was awarded a gold medal and a diploma at the International Technical Fair – Plovdiv'2006. It ensures the possibility for increasing the energy efficiency of hydro-generators up to 15% and their safety and reliability, and longer guarantee period – from 18 to 48 months.



On 29 March 2007 Elprom ZEM AD, in cooperation with NEC EAD, patented the development under the name of “Stator Unit of High Voltage Generator and Method of Production”.

FURNITURE PRODUCTION

Due to the furniture market dynamics, **Augusta Mebel AD** made significant changes in the range of offered products over the last years. The undertaken steps are described in *Item 9.2.1. Information about material factors, including unusual and rare events or new developments which have material impact on the operating income of the Issuer, stating the level of impact on the income* on page 98.



12 MAJOR TRENDS

Over the next few years **the major trends related to the operations of the Holding** are still expected to be related to:

- Acquisition, assessment and sale of interests in other companies;
- Management of the companies in its own portfolio, where IHB Plc can exercise control, directly or through related parties;
- Establishment of new companies;
- Investment in the portfolio companies, where IHB Plc has long-term interests;
- Financing of the companies, where the Holding owns interests.

The main strategic interests of IHB Plc are in the following sectors and activities:

- Maritime business, including the following sectors and activities: shipbuilding and ship repair, port operations, classification and certification, maritime transport;
- Machine building;
- River cruises.

12.1 MAJOR RECENT TRENDS IN THE PRODUCTION, SALES AND INVENTORIES, ORDERS, COSTS AND SELLING PRICES FROM THE END OF THE PREVIOUS YEAR TILL THE DATE OF THE REGISTRATION INSTRUMENT

MARITIME BUSINESS

Shipbuilding and ship repair

As a whole, the world shipbuilding industry enjoys progress. Considerable increase in maritime transport volume is reported, which imposes the necessity of new and more ships for transport of the bigger volume of freights among the countries. Supplying and other special purpose ships of moderate tonnage, high technology and at good prices are most demanded. The second place is occupied by ships for bulk freights of 55 000 – 65 000 tons. All dockyards are 100% work loaded until 2009 and this increased the prices of used ships and imposes precedent prices for used ships – higher than the prices for new ones. This is also predetermined by the fact that a new ship is produced for a year or two, while used and renovated ships can be immediately exploited.

At the same time, the world cruise industry marks an upsurge, which imposes the necessity of more new passenger ships. During the last year, the world cruise industry transported over 10 million passengers, which represents an increase of 10% as compared to the preceding year.

The introduction of higher and new requirements on technical ship safety results in more repair works, which is a factor of positive impact on shipbuilding.

Port operations

Port operations are expected to enjoy progress in the forthcoming years. The maritime transport of goods is expected to mark greater activity against transport by land due to environmental reasons. The increased economic exchange among the countries, resulting from economies' growth, is another reason predetermining this progress. This trend is observed in Bulgaria as well – there are growth in GDP and growth in export and import. In this aspect, the two ports of the IHB Group have the chance to find places in this sector.



Classification and certification

The classification and certification of vessels depend on shipbuilding and ship repair development. As these sectors have been developing and enjoy progress, the classification and certification of newly built and repaired ships also mark growth. Another contributing factor is the introduction of new higher requirements on navigation security and safety by the World Maritime Organization.

MACHINE BUILDING

The demand for metal cutting machines is characterized by a relative permanence in long-term aspect and variation and decrease per each period of 3-4 years. This is predetermined by the long life cycle of the products and their sale to a wide range of customers. The overall economic condition of the respective market considerably influences demand.

RIVER CRUISES

The world trends regarding the tourist travel by ship are towards increase of the number of cruises and tourists using this kind of holiday. This concerns not only sea cruises but also river cruises.

12.2 INFORMATION ABOUT ANY KNOWN TRENDS, UNCERTAINTY, REQUIREMENTS, COMMITMENTS OR EVENTS WHICH MIGHT REASONABLY HAVE SIGNIFICANT IMPACT ON THE PERSPECTIVES OF THE ISSUER AT LEAST FOR THE CURRENT YEAR

MARITIME BUSINESS

Shipbuilding and ship repair

The contracts for building of new vessels, signed by **Bulyard Shipbuilding Industry AD**, will have a strong impact on the Group's consolidated income in 2007 and the next year. The 2007 results will depend mainly on the completion of the fulfilment of the orders for Navigation Maritime Bulgare EAD as during the year 2 ships with construction Nos 516 and 457 are to be delivered. In consideration of the specifics of the transaction accounting and the fact that these are the first orders after restoration of shipbuilding activity, they will predetermine the shipyard's results in the current year.

The world crisis concerning the supplies of basic ship equipment (mainly engines and diesel generators) influences the activity of Bulyard Shipbuilding Industry EAD, especially the commencement of the building of ships with construction Nos 458 and 459 under signed contracts, in relation to which no fixed supply of materials package has been fixed.

Maritime transport /future activity/

The investments by the subsidiaries of Privat Engineering AD have been continuing for several financial years. Over this period return on significant portion of the funds of over EUR 27 million, invested in relation to ships with construction Nos 288 and 289, is expected.

Port operations

The Holding is in process of implementation of the project for extension and modernization of **the port terminal at Dockyard Port-Bourgas AD**. In August 2007 the company finalized the transaction related to the sale of its floating dock at the value of EUR 1 150 thousand and terminated ship repair activities. As of August 2007 the core activity of the company includes port operations, which are characterized by a considerably higher profitability as compared to ship repair even in case of lower sales income.



The ship repair activity within IHB Plc Group is redirected at Bulyard Shipbuilding Industry EAD.

Classification and certification

The EU membership of Bulgaria is expected to impose restrictions on the life cycles of ships under the surveillance of **Bulgarian Register of Shipping AD, Varna**. This and the trend towards an increasing number of classification organizations require that the company expand its operations abroad and be flexible in tariff charging. The procedure for the privatization of Navigation Maritime Bulgare EAD, Varna, makes the future development of the Bulgarian Register even more uncertain.

The basic classification and certification activity is becoming more and more competitive and Bulgarian Register of Shipping AD finds it difficult to compete with its multinational competitors Lloyd's Register of Shipping, Bureau Veritas, Germanischer Lloyd. Therefore, the objective is development in the sector of industrial audit and related operations. Bulgarian Register of Shipping AD has submitted documents for certification by the European Union as a Register.

FURNITURE PRODUCTION

Most foreign customers of Augusta Mebel AD are wholesale traders and big catalogue trade companies. The contracts are short-term and sometimes related to particular sites and are not always subject to renewal with the same customer. Each year new partners are searched for, the activity and production range are restructured and reorganized and specimens are developed so as the production process may go on without interruption. The management efforts are directed to establishment of direct contacts with traders from EU, USA and other smaller markets, including the domestic market.

The change in market directions influences sale income through exchange rates due to the time difference between approval of produced specimens and order assignment and receipt of related income.

12.3 MATERIAL PLANS RELATED TO OPERATIONS

MARITIME BUSINESS

Shipbuilding, ship repair and port operations

IHB Plc intends to increase the investments in this sector through supporting the investment projects of the companies operating therein: Bulyard AD, Bulyard Shipbuilding Industry EAD, Dockyard Port - Bourgas AD, Odessoss PBM AD. In this relation the following priorities have been planned for realization in 2007:

- Implementation of the Investment Program of Bulyard Shipbuilding Industry for 2007, approved by the Management Board and the Supervisory Board /see *Item 5.2.2. Description of the Issuer's major investments in process of realization, IHB Plc Group companies* on page 28 and the following/;
- Implementation of the project for the extension and modernization of the port terminal at Dockyard Port-Bourgas AD /see *Item 5.2.3. Information about major future investments for which material commitments have been made* on page 31 and the following/.

Sea transport /future activity/

In 2007 the building of the two multi-purpose ships, property of the subsidiaries of Privat Engineering AD, will continue. /see *Item 5.2.2. Description of the Issuer's major investments in process of realization, IHB Plc Group companies* on page 28/. A new order was agreed – the building of ship with construction No 458 /see *Item 5.2.3.*



Information about major future investments for which material commitments have been made on page 31/. A portion of the funds raised through the new issue of IHB Plc will be used to finance their building.

In the future new increases in the capital of Privat Engineering AD may become necessary and the decisions thereon will be timely promulgated.

IHB Plc intends to gradually strengthen its positions on the maritime transport market and continue to build ships intended for its subsidiaries.

MACHINE BUILDING

The rapid and successful implementation of the project for renovation and modernization of the capacities of Leyarmach AD significantly influences the financial results and competitiveness of the machine building companies. There are great expectations for attraction of new foreign clients and improvement of the profitability of the activity of Elprom ZEM AD with the introduction of the VPI-line and the building of a laser cutting workshop. The two priority projects are described in detail in *Item 5.2.2* on page 28 and the following.

RIVER CRUISES

Providing cruise journeys with five ships along Rhein, Main, Moselle and the Danube River, the ambitions of the management of Dounav Tours AD and its owners, IHB Plc and Union Tours OOD, are directed at:

- Increase of the occupancy of the berth capacity before, during and after the tourist season, including using some of the ships as hotels out of the season;
- Increase of the number of cruises through organization of additional excursions in the days of Christmas and New Year holidays;
- Development of own pontoon at the Danube River in Rousse;
- Readiness for concession of the passenger ports along the Danube River, the ones in Rousse and Vidin in particular.

The decisions on financing of the above-listed priorities will depend on the needed investments and available funds of the Company at each particular moment.



13 MEMBERS OF THE MANAGEMENT AND CONTROL BODIES, SENIOR MANAGEMENT AND EMPLOYEES

INFORMATION ABOUT THE MEMBERS OF THE ISSUER'S MANAGEMENT AND CONTROL BODIES

MEMBERS OF THE SUPERVISORY BOARD

DZH AD

Seat and address of management: 17B Vtora Street, Residential District of Simeonovo, Sofia

Scope of activities: Intermediation, trade in the country and abroad, commercial representation of domestic and foreign natural persons and legal entities in the country and abroad, transport, design and construction, as well as any other transactions and services not forbidden by law

Number and batch of entry into the Commercial Register:
The company is registered with Sofia City Court, company file No 7659/1999, batch 51251, volume 558, reg. 1, page 52

BULSTAT code: 130020928

NTR Identification Code: 3220074993

Data about the person representing DZH AD in the Supervisory Board of the Company:

Ms. Elena Petkova Kircheva

Education: Higher
SU Kliment Ohridski, 1987
Major: Law

Qualification: Lawyer

Professional qualification: Administrative and managerial experience in state institutions and government and non-government organizations, academic and teaching experience in the law and economic fields, extended experience in diplomacy – many-year ambassador of the Republic of Bulgaria in Switzerland, Liechtenstein, Finland and Austria. Awarded the Grand Decoration in Gold with Sash for services to the Republic of Austria.

Data about activities outside the company:
Member of the Management Board and Secretary-General of Vienna Economic Forum, Vienna, registered under the Austrian Companies Act in 2004.

Companies where she was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:
None



Companies where she holds interest in the capital:

None

Companies where she participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to her activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None

Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

Mr. Konstantin Kouzmov Zografov

Education:

Higher

HNMU Vasil Levski, Veliko Tarnovo

Higher education civil major Eastern languages – Turkish philology

Qualification:

Philologist

Professional experience:

Administrative and managerial experience at the Ministry of Defence and the General Staff and commercial entities

1999 – July 2003 – President of the Supervisory Board of IHB Plc

July 2003 – present – President and Vice President of the Supervisory Board of IHB Plc

Data about activities outside the company:

Member of the Board of Directors of Bulyard AD

Member of the Board of Directors of Privat Engineering AD

Member of the Board of Directors of Hydro Power Bulgaria AD

Member of the Board of Directors of KLVK AD

Member of the Board of Directors of Bulgarian Register of Shipping AD

Member of the Board of Directors of Maritime Holding AD

Member of the Board of Directors and Executive Directors of Dounav River Shipping AD

Manager of ECO Consulting OOD

Member of the Management Board of Re Energy Association

Member of the Management Board of AFCEA – Sofia Section



Regional Vice President for the Mediterranean and Black Sea Region
and Associate Director of AFCEA International
Member of the Management Board of the Bulgarian Institute for
Standardization

Companies where he was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

Member of the Board of Directors of Alumetal AD
Member of the Board of Directors of Alcomet AD
Manager of Build 2000 EOOD

Companies where he holds interest in the capital:

None

Companies where he participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to his activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None

Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

Ms. Snezhana Ilieva Hristova

Education:

Higher
Academy of Economics D. A. Tsenov, Svishtov
Major: Insurance

Qualification:

Economist

Professional experience:

Administrative and managerial experience in commercial entities

Data about activities outside the company:

General Representative of Allianz Bulgaria Holding AD and Owner of
ET GP Allianz Bulgaria – Snezhana Hristova
Member of the Board of Directors of ZAD Allianz Bulgaria Life
Member of the Board of Directors of Stadis AD
Member of the Board of Directors of Aladis AD
Member of the Board of Directors of Vila Romana Vacation Club AD



Manager of Europe 2007 OOD

Companies, where she was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

Member of the Board of Directors of Bulgaria Net AD

Companies where she holds interest in the capital:

Adidas AD, registered with Sofia City Court, company file No 12439/2001, address: 1 Bukata Street, Residential District of Kokalyane, Sofia

Europe 2007 OOD, registered with Sofia City Court company file No 15819/2006, address: 42 Damyan Gruev Street, Sofia

Companies where she participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to her activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years.

None

Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

MEMBERS OF THE MANAGEMENT BOARD

Mr. Bozhidar Vasilev Dane - President

Education: Higher
Technical University, Sofia
Post Doctor Specialization in Germany

Scientific degree: Doctor of Economics

Scientific titles: Senior Research Associate - second degree

Qualification: Engineer / economist

Professional experience: Administrative and managerial experience in commercial entities and non-governmental and business organizations

Data about activities outside the company:

President of the Management Board and Executive President of the Bulgarian Industrial Association



Member of the Board of Directors of Solvey Sodi AD, Devnya
Member of the Board of Directors of Deven AD, Devnya
Member of the Board of Directors of Provadsol AD
Member of the Board of Directors of Free Trade Zone – Rousse EAD
Executive Director and Member of the Board of Directors of Infralink AD, Sofia
Executive Director and Member of the Board of Directors of Interlease AD, Sofia
Member of the Board of Directors of POK Saglasie AD
Member of the Board of Directors of BZK Zakrila AD

Companies, where he was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

Board of Directors of Hemus Highways AD
Board of Directors of Moststroy AD, Sofia

Companies where he holds interest in the capital:

None

Companies where he participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to his activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None

Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

Ms. Daneta Angelova Zheleva

Education:

Higher
SU Kliment Ohridski

Qualification:

Lawyer

Professional experience:

Administrative and managerial experience in commercial entities,
Lawyer, Member of Sofia Bar Association

Data about activities outside the company:



Member of the Board of Directors of DZH AD
Member of the Board of Directors of ZMM Bulgaria Holding AD
Member of the Board of Directors and Executive Director of Privat Engineering AD
Member of the Board of Directors of Dockyard Port - Bourgas AD
Member of the Board of Directors of Dounav Tours AD
Member of the Board and Executive Director of Tourist Company Dounav AD
Member of the Board of Directors and Executive Director of KLVK AD
Member of the Board of Directors and Executive Director of Bulyard AD
Member of the Supervisory Board of Bulyard Shipbuilding Industry AD
Member of the Board of Directors of Odessoss PBM AD
Member of the Board of Directors of Stadis AD
Member of the Board of Shipping Company Dounav EAD
Vice President of the Management Board of the Association of Industrial Capital in Bulgaria
Vice President of the Management Board of the Association of Private Ports in Bulgaria

Companies, where she was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

Member of the Supervisory Board of Industrial Holding Bulgaria Plc, as Representative of DIA Expert EOOD
Partner in DIA Consult OOD
Member of the Board of Directors of Bulgarian Register of Shipping AD
Member of the Board of Directors of Dounav Tours Hotels AD

Companies where she holds interest in the capital:

DZH AD, registered with Sofia City Court, company file No 7659/1999, 17B Vtora Street, Residential District of Simeonovo, Sofia

Companies where she participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to her activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None



Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

Mr. Angel Stoyanov Katsarov

Education:

Higher military
HNMU Vasil Levski

Qualification:

Engineer – internal combustion engines
Military Academy Frunze, Moscow

General Staff Academy Voroshilov, Moscow

Professional experience:

Administrative and managerial experience at the Ministry of Defence and the General Staff and commercial entities

Data about activities outside the company:

President of the Board of Directors of ZMM Bulgaria Holding AD

President of the Board of Directors of Mashstroy AD

President of the Board of Directors of Leyarmach AD

Companies, where he was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

None

Companies where he holds interest in the capital:

None

Companies where he participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to his activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None

Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None



Mr. Borislav Emilov Gavrilo

Education: Higher
University in Hull, Great Britain

Qualification: Economist

Professional experience: Administrative and management experience at commercial entities

Data about activities outside the company:

Manager of Boblo EOOD
Manager of Stock Consult OOD
Member of the Board of Directors of Stock - EG AD
Member of the Board of Directors of Elprom ZEM AD
Member of the Board of Directors of Hydro Power Bulgaria AD
Member of the Board of Directors of Mashstroy AD
Member of the Board of Directors of KLVK AD
Manager of Bulgarian Lloyd EOOD

Companies, where he was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

Procurator of Elprom ZEM AD
Procurator of KLVK AD
Member of the Board of Directors of Bulgarian Register of Shipping AD

Companies where he holds interest in the capital:

Boblo EOOD, registered with Sofia City Court, company file No 5829/2005, address: PZ Station Yana, Region of Kremikovtsi, Sofia

Stock Consult OOD, registered with Sofia City Court, company file No 4269/2000, address: 38 Lyulyak Street, Residential District of Pancharevo, Sofia

Companies where he participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to his activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None



Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

Mr. Boyko Nikolov Noev

Education:

Higher
Moscow International Relations Institute
International Relations Specialist

Qualifications:

Diplomat

Professional experience:

Administrative and managerial experience in state institutions, former Minister of Defence and ambassador of the Republic Bulgaria in OCCE in Vienna

Data about activities outside the company:

Centre for the Study of Democracy
Member of the Supervisory Board of OTSK AD
Member of the Board of Directors of Intertrust Holding BG EAD

Companies, where he was member of management and control bodies, procurators or partners during the last 5 years, apart from the ones stated above:

Member of the Board of Directors of Chimremontstroy AD

Companies where he holds interest in the capital:

None

Companies where he participates as an unlimited liability partner:

None

Enforced administrative measures or administrative penalties imposed on the person during the last 5 years in relation to his activities:

None

Fraud conviction during the last 5 years:

None

Participation in a management or supervisory body or as a senior manager of a company declared in liquidation or insolvency proceedings during the last 5 years:

None

Contracts under Article 204 of the Law on Commerce /contracts signed with the company outside its ordinary operations or materially deviating from market conditions/ concluded during the year:

None

During the last 5 years prior to the date of this document none of the members of the Management and Supervisory Boards has been convicted and/or has been banned by court to be a member of the administrative,



management or supervisory bodies of the company, or to hold managing positions, or to perform the activity of the company.

Ms. Daneta Angelova Zheleva and Mr. Angel Stoyanov Katsarov, members of the Management Board, are linear relatives – first degree.

No linear or collateral relations or relations by marriage exist among the other members of the Management Board or the Supervisory Board of IHB Plc.



14 CONFLICT OF INTERESTS

No present or potential conflicts of interests exist between the obligations of the members of the Supervisory Board or the Management Board to IHB Plc, on the one hand and their personal interests or other obligations, on the other hand.

No agreements have been entered into by the principal shareholders, clients, suppliers or other persons, by virtue of which any person under Item 13 has been elected a member of a management body or a supervisory body.

No limitations have been undertaken by the members of the Supervisory Board or the Management Board as to disposal with their assets in securities of the Issuer exist.

**15 REMUNERATIONS PAID TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS**

	Remunerations received in 2006	
	From IHB Plc	From IHB Plc subsidiaries
<i>Members of the Supervisory Board</i>		
DZH AD, through Representative Elena Kircheva	6 000	-
Snezhana Hristova	6 000	-
Konstantin Zografov	6 000	59 000
<i>Members of the Management Board</i>		
Bozhidar Danev	6 000	-
Daneta Zheleva	18 000	144 000
Angel Katsarov	6 000	117 000
Borislav Gavrilov	6 000	12 000
Boyko Noev	6 000	-

The remunerations received by the members of the Management and Supervisory Boards include amounts received and non-monetary benefits, contingent or deferred remuneration arising during the year, even if the remuneration is owed at a later date.

The total amount of social security contributions paid for the financial year ended 31 December 2006 by the Issuer and its subsidiaries to the members of the Management Board and the Supervisory Board, including obligatory pension insurance contributions for the whole 2006, is BGN 6 235.

The Issuer and its subsidiaries do not set aside or accrue other amounts for pensions, pension compensations or other similar compensations.



16 INFORMATION ABOUT THE ACTIVITIES OF THE MANAGEMENT AND CONTROL BODIES

16.1 DATES OF VALIDITY OF CURRENT CONTRACTS WITH THE MEMBERS OF THE MANAGEMENT AND CONTROL BODIES AND THEIR LENGTH OF SERVICE PERIODS

	Board Member as of	Date of contract validity
<i>Members of the Supervisory Board</i>		
DZH AD, through Representative Elena Kircheva	08 July 2003 19 July 2006	July 2008
Snezhana Hristova	8 July 2003	July 2008
Konstantin Zografov	15 September 1999 *	August 2012
<i>Members of the Management Board</i>		
Bozhidar Danev	07 November 1996 *	August 2012
Daneta Zheleva	08 July 2003 *	August 2012
Angel Katsarov	05 July 2002 *	August 2012
Borislav Gavrilov	08 July 2003 *	August 2012
Boyko Noev	04 March 2003 *	August 2012

In compliance with the Statute of IHB Plc, the members of the Management and Supervisory Boards are elected for a mandate of 5 (five) years and may be discharged prior to mandate expiry.

* Konstantin Zografov was re-elected for another mandate by virtue of a decision adopted by the General Meeting of Shareholders at a session held on 29 August 2007. All members of the Management Board were elected for a new mandate by virtue of a decision of the Supervisory Board at a session held on 29 August 2007. These circumstances are subject to entry at Sofia City Court.

16.2 DATA SPECIFIED IN THE MANAGEMENT CONTRACTS SIGNED WITH IHB PLC OR ITS SUBSIDIARIES REGARDING COMPENSATIONS WHICH THE MEMBERS OF THE MANAGEMENT AND CONTROL BODIES WOULD RECEIVE UPON CONTRACT TERMINATION

The contracts signed in relation to the management of IHB Plc and its subsidiaries provide for no compensations due to the members of the management and control bodies upon termination of their contracts.

16.3 CORPORATE GOVERNANCE

In compliance with the provisions of the Law on Public Offering of Securities, IHB Plc has adopted a programme for application of internationally recognized standards for good corporate governance based on the principles of the Organization for Economic Cooperation and Development (OECS).

The goals of the Programme are: 1) Strengthening of the good corporate governance principles within the Company; 2) increasing the confidence of the shareholders, investors and other stakeholders interested in the management and operations of the Company; 3) encouragement of the successful business operations of the Company.



The corporate governance in IHB Plc is based on the following principles: protection of the shareholders' rights, disclosure of information and transparency and ensuring good governance of the Company by its management bodies.

Steps undertaken by the Company for ensuring compliance with the good corporate practices: in respect of protection and observance of the shareholders' rights – provision of compliance of the organizational and internal documents of the Company with the requirements of the regulatory framework and good corporate practices, and namely: secure ownership registration methods, assignment or transfer of shares, regular and timely receipt of information related to the Company, participation and voting in the General Meeting of Shareholders, participation in the election of management bodies and participation in the Company's profit distribution; in respect of information disclosure and transparency – development of policy and procedures for immediate, accurate and complete disclosure of information before the shareholders and the public, establishment and maintenance of effective information disclosure program, development of procedures for review of the annual, quarterly and current accounts and the other company information provided in accordance with the requirements of the regulatory framework aimed to ensure that the latter are complete, accurate and submitted in due time and in respect of ensuring good governance of the Company by its management bodies – establishment of procedures ensuring that the meetings of the management bodies are being held regularly, that all members are informed as to the agenda and that all materials are provided in due time so as they may be reviewed before the meetings.

The Company monitors the trends in the theory and practice in the field of corporate governance in order to ensure that the Company is aware of the issues in this area and analyzes and makes assessment of the effectiveness and implementation of the corporate governance program of the Company on annual basis.

Information about the Program and its application and implementation by IHB Plc and the Management is included in the annual report on the management and activities of the Company and published together with the annual report in compliance with the applicable laws and good international practices. IHB Plc has Corporate Governance section at its website www.bulgariaholding.com with detailed information about the corporate governance of the Company.

**17 INFORMATION ABOUT THE PERSONNEL****➤ IHB Plc**

As at 30 June 2007 IHB Plc has 9 employees in total. The qualification of the employees with higher education is as follows: economists - 6.

As at 31 December 2006 IHB Plc has 9 employees in total. The qualification of the employees with higher education is as follows: economists - 6.

As at 31 December 2005 IHB Plc has 9 employees in total. The qualification of the employees with higher education is as follows: economists - 6.

As at 31 December 2004 IHB Plc has 10 employees in total. The qualification of the employees with higher education is as follows: economists – 6 and engineers – 1.

Persons employed by IHB under the national classification of professions	Persons with higher education /number/			Persons with secondary education /number/			
	In:	2004	2005	2006	2004	2005	2006
Management		3	3	3	0	0	0
Senior experts		0	0	0	0	0	0
Experts		2	1	1	0	0	0
Specialists		2	2	2	1	1	1
Technical staff		0	0	0	2	2	2
Total		7	6	6	3	3	3

➤ IHB Plc Group companies

Average number as per the list of employees in:	2004	2005	2006
Hired by subsidiaries	1 817	2 647	2 917
Hired by associates	1 312	391	202
Total	3 129	3 038	3 119

In 2006 IHB Plc and its subsidiaries did not hire a significant number of employees under temporary contracts. In addition to the employees hired under labour contracts, as at the end of 2006 there worked at Bulyard Shipbuilding Industry EAD employees of subcontractors of the company of the total number of 600.



The table below shows the Group personnel, including associates, by sectors and activities as per the approved sector structure of IHB Plc portfolio:

Personnel by sectors and activities	Average number as per the list of employees as at 30 June 2007	Number as per the list of employees as at 30 June 2007
I. IHB Plc	9	9
II. Maritime business	1 314	1 320
- <i>shipbuilding and ship repair</i>	1 159	1 165
- <i>port operations</i>	118	116
- <i>classification and certification</i>	37	39
- <i>maritime transport</i>	-	-
III. Machine building	1 493	1 494
IV. Furniture production	141	133
V. River cruises	189	279
VI. Other	3	3
Total subsidiaries	2 937	2 932
Total associates	212	306
Total subsidiaries and associates	3 149	3 238

The specifics of the operations of IHB, its sector portfolio and development of its group individual companies predetermine the requirements to its personnel. For the purpose, the management of the Holding applies a policy directed at enhancing the qualifications of hired employees who are in charge of the various aspects of the Company's activity. The development of priority sectors and operations and the related new projects imply what experts are needed. The most urgent issue was the establishment of an internal control unit, which started functioning on 1 July 2007 according to plan.

In the course of time, the issue concerning the training of employees with secondary special and engineering and technical education becomes quite serious. Many young people do not want to work in the production and industry sectors. The settlement of this issue directly affects not only personnel provision but also production quality and the opportunities for development of research and innovation activities at the companies. To solve the problem, the Management of the Holding works in close cooperation with the academic society through:

- Training of students from technical schools and universities at most companies – **Bulyard Shipbuilding Industry AD, Elprom ZEM AD, Mashstroy AD and ZMM Sliven AD**;
- Participation of the companies' management bodies in boards of technical universities – for example, the Executive Director of **Bulgarian Register of Shipping AD** is a member of the Board of Varna Technical University;
- Development of joint projects between the higher education institutions and the Group's companies in relation to new developments and solving of certain issues related to the production and repair operations of **Bulgarian Register of Shipping AD, Elprom ZEM AD and Bulyard Shipbuilding Industry AD**;
- Hiring of trainees and graduates at the companies

The various programs for human resources development and employment encouragement of the Ministry of Labour and Social Policy, financed by the pre-accession funds, form another source for solving this problem. At the beginning of 2007 three of the Group companies, **Bulyard Shipbuilding Industry AD, Dounav Tours AD and Elprom ZEM AD**, presented to the Ministry of Labour and Social Policy their conceptual projects for employment under Budget Line BG 2005/017-353.10.01 – grant scheme under the PHARE Program. As at the



date of this Registration Instrument the Ministry of Labour and Social Policy has not announced the applicants selected to submit application forms in compliance with the applicable procedure.

Information about the shares held by the members of the Supervisory and Management Boards of IHB Plc

As at 31 August 2007:

	Acquired in 2007	Transferred in 2007	Number of shares held directly	Number of shares held through related parties	Total number of shares held directly and through related parties	% of the votes in the General Meeting of Shareholders, directly and through related parties
<i>Members of the Supervisory Board</i>						
DZH AD	162 201		1 584 393	0	1 584 393	6.03%
Snezhana Hristova	0	5 152	0	9 900	9 900	0.038%
Konstantin Zografov	0	0	350	125	475	0.002%
<i>Members of the Management Board</i>						
Bozhidar Danev	0	0	125	0	125	0.0006%
Daneta Zheleva	162 201		15 832	1 584 518	1 600 350	6.10%
Angel Katsarov	0	0	0	1 295	1 295	0.006%
Borislav Gavrilov	0	0	125	375	500	0.002%
Boyko Noev	0	0	0	0		0

There are no planned options on IHB Plc securities.

The members of the Management and Supervisory Boards enjoy no other rights of acquisition of shares or bonds of the Company except for the shares directly held by them, which are identical to the rights of the other shareholders.

Description of agreements reached for participation of the employees in the capital of IHB Plc, including through the issue of shares, options or other securities of IHB Plc

In IHB Plc there are no schemes for participation of the employees in the Company's capital.



18 PRINCIPAL SHAREHOLDERS

DATA ABOUT THE SHAREHOLDERS HOLDING OVER 5% OF THE VOTING SHARES

As at **31 August 2007** IHB Plc has information about the following shareholders owning over 5% of the voting shares:

1. Venside Enterprises Limited

Seat: Limassol, Republic of Cyprus
Address of management: Office 607, Floor 6, Block B, Limassol Centre, 2 Riga Ferou Street, Limassol, Republic of Cyprus

Registration number: H.E. 105822 dated 22 October 1999

Number of voting shares and their percentage of the votes in the General Meeting of Shareholders of the Company:

As at 31 August 2007: 8 233 498 shares, representing 31.36 % of the votes, directly held

As at 31 December 2006: 7 626 799 shares, representing 31.36 % of the votes, directly held

As at 31 December 2005: 7 626 799 shares, representing 31.36 % of the votes, directly held

As at 31 December 2004: 7 626 799 shares, representing 31.36 % of the votes, directly held

2. Bulls AD

Seat: Kostinbrod

Address of management: 7 P. Evtimii Street

Number of voting shares and their percentage of the votes in the General Meeting of Shareholders of the Company:

As at 31 August 2007: 3 176 000 shares, representing 12.10 % of the votes, directly held

As at 31 December 2006: 0 shares

As at 31 December 2005: 0 shares

As at 31 December 2004: 0 shares

3. DZH AD

Seat: Sofia

Address of management: 17 B Vtora Street, Residential District of Simeonovo



Number of voting shares and their percentage of the votes in the General Meeting of Shareholders of the Company:

As at 31 August 2007: 1 584 393 shares, representing 6.03 % of the votes, directly held

As at 31 December 2006: 1 422 192 shares, representing 6.77% of the votes, directly held

As at 31 December 2005: 1 422 192 shares, representing 6.77% of the votes, directly held

As at 31 December 2004: 1 374 682 shares, representing 6.55% of the votes, directly held

4. Ms. Daneta Angelova Zheleva

Number of voting shares and their percentage of the votes in the General Meeting of Shareholders of the Company:

As at 31 August 2007: 15 832 shares, representing 0.06% of the votes, held directly and a total of 1 600 350 shares, representing 6.10% of the votes, held through related parties

As at 31 December 2006: 15 832 shares, representing 0.06% of the votes, held directly and a total of 1 438 149 shares, representing 6.85% of the votes, held through related parties

As at 31 December 2005: 15 832 shares, representing 0.08% of the votes, held directly and a total of 1 438 149 shares, representing 6.85% of the votes, held through related parties

As at 31 December 2004: 15 832 shares, representing 0.08% of the votes, held directly and a total 1 376 102 of shares, representing 6.55% of the votes, held through related parties

5. Mr. Dimitar Georgiev Zhelev

Number of voting shares and their percentage of the votes in the General Meeting of Shareholders of the Company:

As at 31 August 2007: 125 shares, representing 0.0005% of the votes, held directly and a total of 1 600 350 shares, representing 6.10% of the votes, held through related parties

As at 31 December 2006: 125 shares, representing 0.0006% of the votes, held directly and a total of 1 438 149 shares, representing 6.85% of the votes, held through related parties

As at 31 December 2005: 125 shares, representing 0.0006% of the votes, held directly and a total of 1 438 149 shares, representing 6.85% of the votes, held through related parties

As at 31 December 2004: 125 shares, representing 0.0006% of the votes, held directly and a total of 1 391 809 shares, representing 6.63% of the votes, held through related parties

None of the above-listed shareholders holds different rights to vote in the General Meeting of the Company.



As at **31 August 2007** IHB Plc has no information about a person/ persons exercising control on the Company, directly or indirectly. To the best knowledge of the Issuer, there no agreements that will impose change in the control on any subsequent date.

19 TRANSACTIONS WITH RELATED PARTIES

In compliance with International Accounting Standard 24. Disclosure of Related Parties, transactions with related parties are present when a party to a particular transaction exercises control on the other party to such transaction or may exercise significant influence on the decisions on financial issues or current operations of the other party to such transaction.

INFORMATION ABOUT TRANSACTIONS ENTERED INTO BY THE ISSUER AND RELATED PARTIES IN THE PERIOD SINCE THE BEGINNING OF THE FIRST OF THE LAST THREE FINANCIAL YEARS UNTIL THE DATE OF THIS REGISTRATION INSTRUMENT:

- *Type and amount of all transactions or proposals made at present as to transactions of material importance for IHB Plc or the related party or transactions, which are unusual in terms of type and/or conditions, to which the Issuer or its subsidiary is a party*

As at **31 August 2007** there are no such transactions or proposals for transactions for IHB Plc or its related party.

- *Loans granted by IHB Plc or its subsidiaries (including underwriting guarantees of any type) to or in favour of related parties*

2004

In the period 1 January 2004 – 31 December 2004 IHB Plc granted **cash loans of the total amount of BGN 4 247 thousand to related parties**. The yield from loans granted represents 14.75% of the operating income of IHB Plc, and the share of income from services rendered is 8.28%. Cash loans have been granted to the following companies:

Loans granted in 2004

Company	Amount BGN'000	Interest rate
Elprom ZEM AD	447	ОЛП+7%
Privat Engineering AD	168	ОЛП+7%
Dockyard Port - Bourgas AD	65	ОЛП+7%
KLVK AD	3 532	ОЛП+7%
Augusta Mebel AD	35	ОЛП+7%



As at 31 December 2004 **IHB Plc receivables under cash loans granted**, including those from prior years, are:

Outstanding principals under loans granted

Company	Amount BGN'000
Elprom ZEM AD	599
KLVK AD	2 575
Privat Engineering AD	3
Leyarmach AD	166
Augusta Mebel AD	35
Member of the Management Board	10
Total outstanding principals	3 388

IHB Plc has **provided collateral to its own liabilities** to DSK Bank EAD on a loan amounting to USD 2 million in the form of first registered pledge of the business of its subsidiary Dockyard Port - Bourgas AD, Bourgas, as unity of rights, obligations and factual relations. As at 31 December 2004 the loan payable amounts to BGN 2 394 thousand.

As at 31 December 2004 there are **collaterals provided to third parties for IHB Plc liabilities** in the form of avals of promissory note by ZMM Bulgaria Holding AD at the amount of USD 475 thousand, issued by IHB Plc as additional collateral on its loan from DSK Bank EAD.

IHB Plc has **provided guarantees to group companies** to CB Allianz Bulgaria AD in the form of avals of promissory notes at the total amount of BGN 313 667, with which the Holding guaranteed the following liabilities:

- Bank loan granted to Augusta Mebel AD at the amount of BGN 100 thousand. Repayment date – 25 February 2006 and
- Performance bond undertaken by Elprom ZEM AD to customers at the total amount of BGN 213 667 with various maturity dates in the period 18 December 2005 – 30 June 2008, depending on the contract performance terms.

2005

In the period 1 January 2005 – 31 December 2005 IHB Plc granted **cash loans at the total amount of BGN 2 434 thousand to related parties**. During the year BGN 5 190 thousand was repaid, including as per prior loan repayment schedules. The yield on loans granted represents 2.17% of the operating income of IHB Plc in 2005, and the share of income from services rendered is 1.40%. Cash loans were granted to the following companies:

Loans granted in 2005

Company	Amount, BGN'000	Interest rate
Elprom ZEM AD	160	ОЛП+7%
Privat Engineering AD	922	ОЛП+7%
KLVK AD	1 352	ОЛП+7%



As at 31 December 2005 **IHB Plc receivables on cash loans granted**, including those from prior years, are:

Outstanding principals under loans granted

Company	Amount, BGN'000
Elprom ZEM AD	138
Privat Engineering AD	260
Leyarmach AD	166
Total outstanding principals	564

As at 31 December 2005 **the guarantees granted by IHB Plc for related party payables** are:

To DSK Bank EAD under bank guarantees issued in favour of customers, securing payables of Elprom ZEM AD under an agreement as follows:

Date of granting	Maturity date	Amount, EUR
19 August 2005	31 August 2008	402 714.57
19 August 2005	31 August 2009	134 238.19
19 August 2005	31 August 2009	134 238.19
Total guarantees		671 191.00

The bank guarantees from DSK Bank EAD have been secured with a second registered pledge of the business of the subsidiary Dockyard Port - Bourgas AD, Bourgas, as a unity of rights, obligations and factual relations.

To CB Allianz Bulgaria AD in the form of avals of promissory notes at the total amount of BGN 297 725, by means of which the Holding guaranteed the following payables:

- Loan granted to Augusta Mebel AD, Shoumen, at the amount of BGN 100 thousand, repayment date – 25 February 2006 /at the date of this Registration Instrument the amount has been repaid/ and
- Performance bonds undertaken by Elprom ZEM AD to customers as follows:

Date of granting	Maturity date	Amount, BGN
31 July 2002	10 February 2007	21 851
27 February 2003	30 June 2008	66 720
21 April 2003	20 December 2007	90 817
21 April 2003	2 February 2008	8 596
28 July 2003	31 July 2007	9 741
Total guarantees		197 725

As at 31 December 2005 there are **no granted guarantees by third parties, securing the liabilities of IHB Plc**.

**2006**

In the period 1 January 2005 – 31 December 2006 IHB Plc granted **cash loans at the total amount of BGN 5 303 thousand to related parties**. During the year BGN 4 779 thousand was repaid, including as per prior loan repayment schedules. The yield on loans granted represents 3.73% of the operating income of IHB Plc in 2006, and the share of income from services rendered is 31.33%. Cash loans were granted to the following companies:

Loans granted in 2006

Company	Amount, BGN'000	Interest rate
Privat Engineering AD	2 360	6%
Elprom ZEM AD	316	8%
KLVK AD	668	6%
ZMM Bulgaria Holding AD	600	6%
Augusta Mebel AD	19	6%
Dockyard Port - Bourgas AD	567	8.5%
Bulyard AD	36	6%
Bulyard Shipbuilding Industry EAD	737	10%

As at 31 December 2006 **IHB Plc receivables on cash loans granted**, including those from prior years, are:

Outstanding principals under loans granted

Company	Amount, BGN'000
Elrpom ZEM AD	57
Privat Engineering AD	82
Leyarmach AD	166
Dockyard Port - Bourgas AD	437
KLVK AD	325
Bulyard AD	9
Bulyard Shipbuilding Industry EAD	3
Total outstanding principals	1 079

As at 31 December 2006 IHB Plc has **granted guarantees for related party payables**, as follows:



To *DSK Bank* EAD in relation to:

- Bank guarantees issued in favour of customers, securing payables of Elprom ZEM AD under an agreement as follows:

Date of granting	Maturity date	Amount, EUR
19 August 2005	31 August 2008	402 714.57
19 August 2005	31 August 2009	134 238.19
19 August 2005	31 August 2009	134 238.19
Total guarantees		671 191.00

- An agreement for credit limit for issuance of bank guarantees and working capital financing of the Holding and/ or its group companies – as at 31 December 2006 there no bank guarantees issued against the credit limit.

The two agreements signed with DSK Bank EAD have been secured with a second registered pledge on the business of the subsidiary Dockyard Port – Bourgas, Bourgas, as a unity of rights, obligations and factual relations, including entry of basic assets into the respective registers.

To *CB Allianz Bulgaria AD* in the form of avals of promissory notes at the total amount of BGN 214 thousand, by means of which the Holding guaranteed the performance bonds undertaken by Elprom ZEM AD to customers. The bonds have different maturity dates depending the term of agreement performance.

Corporate guarantees:

- In June 2006 IHB Plc issued a corporate guarantee at the amount of EUR 4 280 850 and USD 3 729 018 to secure the third advance payment made by Bulyard Shipbuilding Industry AD for the building of ship with construction No 516. The guarantee was closed on 15 December 2006 as a result from a fulfilled obligation on behalf of the shipyard to the ship buyer Varna Maritime Ltd.
- On 15 November 2006 IHB Plc issued the second corporate guarantee at the amount of EUR 3 433 424 and USD 2 977 531 to secure the third advance payment from Georgi Maritime Ltd, the buyer of ship with construction No 457.

The corporate guarantees are secured by pledge of immovable property of Bulyard Shipbuilding Industry AD.

The Management of IHB Plc believes there are no indications that the above mentioned payables might not be repaid, therefore **no contingent liabilities have been accrued**.

As at 31 December 2006 there **are no granted guarantees by third parties, securing the liabilities of IHB Plc**.

30 June 2007

In the period 1 January 2007 – 30 June 2007 IHB Plc granted **cash loans at the total amount of BGN 1 187 thousand to related parties**. During the period BGN 783 thousand was repaid, including as per prior loan repayment schedules. The yield on loans granted represents 1.60% of the operating income of IHB Plc in the first half of 2007, and the share of income from services rendered is 1.85%. Cash loans were granted to the following companies:

**Loans granted in the period 1 January 2007 – 30 June 2007:**

Company	Amount, BGN'000	Interest rate
Privat Engineering AD	163	6%
Elprom ZEM AD	207	8%
Dockyard Port - Bourgas AD	75	8%
Bulyard Shipbuilding Industry EAD	742	8% - EUR и 10% - USD

As at 30 June 2007 **IHB Plc** receivables on cash loans granted, including those from prior years, are:

Outstanding principals under loans granted

Company	Amount, BGN'000
Leyarmach AD	131
Dockyard Port - Bourgas AD	512
Bulyard Shipbuilding Industry EAD	673
Total outstanding principals	1 316

In the period 1 January 2007 – 30 June 2007 IHB Plc received cash loans at the total amount of BGN 5 789 thousand from related parties as follows:

Loans received in the period 1 January 2007 – 30 June 2007:

Company	Amount, BGN'000	Interest rate
Privat Engineering AD	5 395	8%
ZMM Bulgaria Holding AD	394	6%

In the period IHB Plc repaid BGN 801 thousand and as at 30 June 2007 **its liabilities under loans received, including interests**, amount to:

Principals due under loans received

Company	Amount, BGN'000
Privat Engineering AD	4 799
Total principals due	4 799

As at 30 June 2007 IHB Plc has **granted guarantees for related party payables**, as follows:



To *DSK Bank EAD* in relation to:

- Bank guarantees issued in favour of customers, securing the contractual liabilities of Elprom ZEM AD, as follows:

Date of granting	Maturity date	Amount, EUR
19 August 2005	31 August 2008	402 714.57
19 August 2005	31 August 2009	134 238.19
19 August 2005	31 August 2009	134 238.19
Total guarantees		671 191.00

- An agreement for credit limit for issuance of bank guarantees and working capital financing to the Holding and/ or its Group's companies. As at 30 June 2007 there are two bank guarantees issued against the credit limit:
 - BGN 100 thousand in favour of Regional Customs Directorate – Bourgas to secure potential customs liabilities of Dockyard Port - Bourgas AD in relation to a bonded warehouse type A located on its territory;
 - EUR 339 thousand in favour of Elprom ZEM AD to secure an advance payment under a contract signed with an Indian customer.

The two contracts are secured by second registered pledge of the business of Dockyard Port - Bourgas AD, Bourgas, a subsidiary of IHB Plc, as totality of rights, obligations and factual relations, including entry of basic assets in the respective registers.

To *CB Allianz Bulgaria AD* – in the form of avals of promissory notes at the total amount of BGN 167 thousand, used by the Holding to secure performance bonds undertaken by Elprom ZEM AD to customers. The guarantees have different maturity dates depending on contractual execution terms.

Corporate guarantees:

- On 15 November 2006 IHB Plc issued a **corporate guarantee** of EUR 3 433 424 and USD 2 977 531 to secure the third advance payment from the buyer Georgi Maritime Ltd for ship with construction No 457. In April 2007 the guarantee was closed following performance of the shipyard's obligations to the buyer.
- In July 2007 IHB Plc issued a **corporate guarantee** EUR 4 211 942 and USD 3 595 434 to secure the third advance payment from the buyer Alexander Maritime Ltd for ship with construction No 515

These are the second and third guarantees issued by IHB Plc following the first one issued in 2006 in relation to ship with construction No 516, which was closed at the end of the year. All guarantees are secured by pledge of immovable property of Bulyard Shipbuilding Industry EAD.

The Management of IHB Plc believes that no indications exist that the above-mentioned liabilities would not be fulfilled, therefore **no contingent liability provisions have been set aside.**

As at 30 June 2007 there **are no granted guarantees by third parties, securing the liabilities of IHB Plc.**



20 FINANCIAL INFORMATION

Annual financial statements. Audit reports. Interim reports

The annual financial statements for the last three years – 2006, 2005 and 2004, including consolidated and unconsolidated financial statements, audited by a registered auditor, the management reports in compliance with Article 33, Paragraph 1 of the Law on Accountancy, the audit reports for each period, for which audited financial statements are required, as well as the interim financial statements (consolidated and unconsolidated), for the above-mentioned years, which are unaudited, have been submitted to the Financial Supervision Commission and Bulgarian Stock Exchange – Sofia AD within the terms specified.

The incoming numbers of IHB Plc statements/ reports submitted to the Financial Supervision Commission and Bulgarian Stock Exchange – Sofia AD are as follows:



Year	Statements/ Reports	FSC Incoming No	BSE Incoming No
2006	Annual, consolidated	10-05-1587/26 April 2007	7648/26 April 2007
	Annual, unconsolidated	10-05-767/30 March 2007	5789/30 March 2007
	IV Quarter, consolidated	ПГ-05-00/2/01 March 2007	3919/01 March 2007
	IV Quarter, unconsolidated	ПГ-05-00/1/30 January 2007	1688/30 January 2007
	III Quarter, consolidated	ПГ-05-00/15/29 November 2006	15387/28 November 2006
	III Quarter, unconsolidated	ПГ-05-00/10/30 October 2006	13520/30 October 2006
	II Quarter, consolidated	ПГ-05-00/13/30 August 2006	10670/30 August 2006
	II Quarter, unconsolidated	ПГ-05-00/11/24 July 2006	8794/24 July 2006
	I Quarter, consolidated	ПГ-05-00/10/30 May 2006	6362/30 May 2006
	I Quarter, unconsolidated	ПГ-05-00/00/7/27 April 2006	4718/27 April 2006
2005	Annual, consolidated	ПГ-05-00/00/9/30 June 2006	7730/30 June 2006
	Annual, unconsolidated	ПГ-05-00/4/31 March 2006	3577/31 March 2006
	IV Quarter, consolidated	ПГ-05-00/00/9/30 June 2006	2169/28 February 2006
	IV Quarter, unconsolidated	ПГ-05-00/00/9/30 June 2006	979/30 January 2006
	III Quarter, consolidated	10-05-14/30 November 2005	8859/30 November 2005
	III Quarter, unconsolidated	10-05-12/28 October 2005	7877/28 October 2005
	II Quarter, consolidated	10-05-11/30 August 2005	6666/30 August 2005
	II Quarter, unconsolidated	10-05-9/29 July 2005	5892/29 July 2005
	I Quarter, consolidated	ПГ-05-62/16/30 May 2005	4107/30 May 2005
	I Quarter, unconsolidated	10-05-05/29 April 2005	3213/29 April 2005
2004	Annual, consolidated	10-05-7/30 June 2005	4955/30 June 2005
	Annual, unconsolidated	N10-05-03/30 March 2005	2266/30 March 2005
	IV Quarter, consolidated	ПГ-05-62/6/28 February 2005	1411/28 February 2005
	IV Quarter, unconsolidated	10-05-01/31 January 2005	835/01 February 2005
	III Quarter, consolidated	ПГ-05-62/32/30 November 2004	IHB Plc Outgoing No 438/30 November 2004
	III Quarter, unconsolidated	10-05-13/29 October 2004	5987/29 October 2004
	II Quarter, consolidated	ПГ-05-62/62727 August 2004	IHB Plc Outgoing No 338/27 August 2004
	II Quarter, unconsolidated	10-05-10/29 July 2004	4561/29 July 2004
	I Quarter, consolidated	ПГ-05-062/14/01 June 2004	3189/01 June 2004
	I Quarter, unconsolidated	10-05-07/30 April 2004	2395/30 April 5004
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All aforementioned documents are available to investors at the websites of the two institutions (www.fsc.bg and www.bse-sofia.bg) and may be accessed in the following manner: go to and open the website of FSC (www.fsc.bg), select ER&CI (electronic register and card-index) and then – public companies or other issuers. Select the particular issuer or public company by its name initial letter (in this particular case – the letter “I”). Select “IHB Plc” from the list of public companies and issuers, the names of which begin with “I”. Go to the right down part of the page containing information about IHB Plc, including active and inactive menus, and select the active blue-colour menu named “Financial (regular) Statements/ Reports”. There appears a table of five columns, the first two of which contain data about the period covered by the statements/ report or their type, while the fifth one contains the statements/ report.

The Company’s financial statements are also available at the website of Bulgarian Stock Exchange – Sofia AD (www.bse-sofia.bg) and may be accessed in the following manner: go to and open the website of BSE and select the active red-colour menu named “Financial Information about Issuers”, select the respective annual period, select a sub-period within the year selected (i. e. I, II, III or IV quarter or audited statements for the selected year or consolidated ones). Select a public company or other securities issuer by stock exchange code, i. e. IHLBL.

All aforementioned documents are available to investors at the website of IHB Plc (www.bulgariaholding.com), Statements/ Reports sub-section.

All these documents will be provided by IHB Plc, upon request, to any potential investor. The documents may also be examined at the information centre of FSC at 33 Shar Planina Street, Sofia, as well as at the building of Bulgarian Stock Exchange – Sofia AD at 10 Tri Ushi Street.

Corporate policy on dividend distribution and information about dividends per share over the last three financial years

As of its establishment IHB Plc has been applying a policy on profit reinvestment in the long-term growth and development of the economic group instead of payment of dividends or other allotments to the shareholders. With a view to the good perspectives and continuing development of the economic group, IHB Plc does not envisage any change in dividend policy in the forthcoming years.

If the Company fails to use its capital efficiently for growth or acquisitions, it will consider dividend distribution to ensure maximum profitability to its shareholders. A decision on future profit distribution to the shareholders of IHB Plc is to be adopted by the General Meeting of Shareholders.

In **1997 financial year** the Company distributed dividend amounting to BGL 5 688 (not denominated) per share, of which BGL 4 000 in the form of 4 new shares and BGL 1 688 in cash.

In **2004 financial year** the Company paid no dividends. The financial result of IHB Plc as at 31 December 2004 is a profit at the amount of BGN 1 048 thousand. The General Meeting of Shareholders has taken a decision on profit distribution as follows:

- 10% - Reserves Fund – BGN 104,8 thousand
- Retained earnings – BGN 943,2 thousand

In **2005 financial year** the Company paid no dividends. The financial result of IHB Plc as at 31 December 2004 is a profit at the amount of BGN 7 170 thousand. The General Meeting of Shareholders has taken a decision on profit distribution as follows:

- 10% - Reserve Fund – BGN 717 thousand
- Retained earnings – BGN 6 454 thousand

In **2006 financial year** the Company paid no dividends. The financial result of IHB Plc as at 31 December 2006 is a profit at the amount of BGN 1 858 thousand. The General Meeting of Shareholders has taken a decision on profit distribution as follows:



- 10% - Reserve Fund – BGN 186 thousand
- Retained earnings – BGN 1 672 thousand

Information about litigation, administrative or arbitration proceedings

Over the last twelve months ended on the date of this Registration Instrument IHB Plc was not a party to any litigation, administrative or arbitration proceedings (including proceedings which are pending or likely to be initiated), which have had or might have significant impact on the financial position of the Company or its profitability.

Material changes in the financial position of the Issuer or the Group's subsidiaries, which occurred after the date of publication of the last financial statements

The following material changes in the financial position of the Issuer or the Group subsidiaries occurred after the date of publication of the last financial statements:

➤ ***Increase in the capital of IHB Plc through conversion of the issue of corporate convertible bonds***

On 1 June 2007 the General Meeting of Shareholders adopted a decision on increase in the capital of IHB Plc through conversion of all bonds into ordinary shares. On 19 July 2007 Sofia City Court registered increase in the capital from BGN 21 003 235 to BGN 26 254 040. Detailed information about the issue characteristics is given in *Item 10.1. Information about the Issuer's capital resources* on page 112.

➤ ***Investments in new companies***

VIK-Sandvik-IHB DESIGN AD was established in August 2007 by IHB Plc in partnership with Vik Sandvik, Norway. Its scope of activity includes ship design. The capital of the company amounts to BGN 250 000. Each shareholder participates with 50%.

Karvuna Ltd, Marshall Islands – a company established in August 2007 by Privat Engineering AD and its scope of activity includes maritime transport, similarly to the other two subsidiaries Emona Shipping Ltd and Marciana Shipping AD.

➤ ***New ship orders***

In August 2007 **Karvuna Ltd**, Marshall Islands, a subsidiary of IHB Plc through the subsidiary Privat Engineering AD, agreed the building of one 21 000-ton multi-purpose ship at Bulyard Shipbuilding Industry EAD. The ship is to be delivered by December 2009.

On 16 August 2007 Bulyard Shipbuilding Industry EAD signed contracts for building of three new ships with **Navigation Maritime Bulgare EAD** – two of them with loading capacity of 55 500 tons each, unit price of BGN 32,6 million and delivery term – 2011 and one with loading capacity of 21 200 tons, price of BGN 23 million and delivery term – 2009.

➤ ***Adopted decisions on increase in the capital of Privat Engineering AD***

At the beginning of September the General Meeting of Shareholders of **Privat Engineering AD** adopted a decision on increase in its capital by BGN 160 thousand through issuance of 160 new ordinary dematerialized



voting shares of BGN 1 nominal value and BGN 10 issue value each. The shares have been fully subscribed by International Industrial Holding Bulgaria AG and paid with own funds. The increase was made in relation to the construction of the third ship for IHB Plc Group.



21 ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

As at the date of this Registration Instrument the share capital of IHB Plc amounts to BGN 26 254 040 distributed into 26 254 040 ordinary dematerialized registered of BGN 1 nominal value each.

All shares issued by the Company until present date are fully paid in cash.

As at:	1 January 2006	31 December 2006	30 June 2007	Registration Instrument date
Capital amount, in BGN	21 003 235	21 003 235	21 003 235	26 254 040
Number of shares	21 003 235	21 003 235	21 003 235	26 254 040
Number of shares issued and fully paid	21 003 235	21 003 235	21 003 235	26 254 040
Share nominal value, in BGN	1	1	1	1
Number of shares in circulation at the end of the period	21 003 235	21 003 235	21 003 235	26 254 040

On 29 August 2007 the General Meeting of IHB Plc adopted a decision on capital increase from BGN 26 254 040 to BGN 43 756 733 through issuance of up to 17 502 693 new ordinary dematerialized voting shares of BGN 1 nominal value and BGN 2.40 issue value each.

IHB Plc and its subsidiaries hold no shares in the capital of the Company.

There are no persons holding options on IHB Plc capital or the capital of a company – member of the economic group or persons, to which there is a contingent or unconditional commitment to issue shares in their favour.

History of share capital

As at the date of this Registration Instrument the Company has **four issues of shares** of the same type – dematerialized registered voting shares of nominal value of BGN 1 each.

1996: The first share issue of the Company is related to its establishment. At the first issue of shares 2 200 000 shares were offered with allowed range of minimum of 1 606 000 and maximum of 3 740 000.

Subscribed shares are 2 654 985, as follows: in investment bonds - BGL 2 634 985 and in cash - BGL 20 000.

1997: The second issue: The Company's capital was increased through a public issue of shares against investment bonds. This was carried out between the first and the second tender sessions of the first round of the mass privatization in the Republic of Bulgaria in accordance with the provisions of the effective legislation.

The second issue of shares amounts to BGL 130 395 in investment bonds only.

1998: The third issue of shares amounts to BGL 14 714 620 only in cash.

The capital was increased by a decision of the General Meeting of Shareholders of the Company dated 27 February 1998 on capital increase from BGL 2 785 380 to BGL 17 500 000 as follows:



a/ on the basis of Article 197 of the Law on Commerce - through transformation into capital of the portion of the distributed profit for 1997 amounting to BGL 11 141 520 through the issue of 11 141 520 registered voting shares of nominal value of BGL 1 each;

b/ on the basis of Article 195 in relation to Article 194, Paragraph 2 of the Law on Commerce – through the issue of 3 573 100 registered voting shares of nominal value of BGL 1 each.

2002: The fourth issue of shares was offered for subscription only to the Company's shareholders, therefore on the grounds of Article 79, Paragraph 1, Item 4 of the Law on Public Offering of Securities no prospectus has been prepared and submitted.

The capital to be raised was up to BGN 14 997 500, but not less than BGN 3 500 000. The nominal value is BGN 1, and the issued value of each share in the capital increase is equal to its nominal value.

Shares subscribed in the fourth issue are 3 503 235 at the total value of BGN 3 503 235.

2007: The fifth issue of shares:

On 2 July 2004 IHB Plc issued an issue of corporate convertible bonds with characteristics as disclosed in *Item 10.3. Information about the Issuer's needs of loans and structure of financing* on page 122.

At a session held on 1 June 2007 the General Meeting of Shareholders adopted a decision on the basis of Article 195 of the Law on Commerce on Company's capital increase through conversion of the convertible bonds with ISIN code BG2100010045 into shares.

With a decision dated 19 July 2007 Sofia City Court entered increase in IHB Plc capital from BGN 21 003 235 to BGN 26 254 040 through issuance of 5 250 805 ordinary registered dematerialized voting shares of nominal value of BGN 1 each.

21.2 INFORMATION ABOUT THE STATUTE OF IHB PLC

The information presented under this Item is taken from the Statute of IHB Plc, which is current as at the date of this Registration Instrument.

In accordance with Article 3 of the Statute, the scope of activities of IHB Plc includes:

- Acquisition, management, assessment and sale of interests in Bulgarian and foreign companies;
- Acquisition, assessment and sale of patents, granting of licenses for the use of patents to companies in which the Holding has interests;
- Financing of the companies in which the Holding has interests;
- Any other activities not prohibited by law.

The Statute and Incorporation Documents of IHB Plc do not set forth the Company's objectives.

Supervisory Board and Management Board

The Statute of IHB Plc envisages a two-tier management system, consisting of a Supervisory Board and a Management Board. The members of the Supervisory Board and the Management Board may be active individuals or legal entities.

Supervisory Board

In compliance with the applicable laws and the Statute of IHB Plc, the Supervisory Board consists of 3 (three) to 7 (seven) members. The members of the Supervisory Board are elected and discharged by a decision of the General Meeting of Shareholders adopted with simple majority of all shares represented at the respective session.



The General Meeting of Shareholders determines the remunerations of the members of the Supervisory Board and approves the financial guarantees for their management. In compliance with the Law on Public Offering of Securities of 2000 and Article 29, Paragraph 4 of the Statute, at least 1/3 of the members of the Supervisory Board have to be independent persons (i. e. they may not be: (a) employees of IHB Plc; (b) shareholders who hold, directly or through related parties, at least 25% of the votes in the General Meeting of Shareholders or are related to IHB Plc; (c) persons who have lasting business relations with IHB Plc; (d) members of a management body or a control body or procurators or employees of a commercial company or other legal entity under Letters (b) or (c) or (e) persons related to other member of the Management Board of the Supervisory board of IHB Plc).

The Supervisory Board does not participate in the management of the Company but represent the latter in its relations with the Management Board only.

Some of the powers within the scope of competency of the Supervisory Board are the appointment and discharge of the members of the Management Board, approval of the decisions of the Management Board on delegation of its right to represent IHB Plc to a member or members of its composition and ongoing supervision over the activities of the Management Board.

In compliance with the Statute of IHB Plc, the decisions of the Supervisory Board require a quorum of at least ½ of all its members and simple majority unless otherwise provided for by the applicable laws. The Supervisory Board may adopt a decision without holding a session if all members give their written consent thereon.

Management Board

In compliance with the Statute of IHB Plc, the Management Board consists of 5 (five) members. The members are appointed and discharged by the Supervisory Board. The remunerations and management guarantees of the members of the Management Board are decided by the General Meeting of Shareholders.

In compliance with the Statute of the Company, the holding of sessions and adoption of decisions of the Management Board require a quorum of at least ½ of all its members and simple majority unless otherwise provided for by the applicable laws. The Management Board may adopt a decision without holding a session if all members give their written consent thereon. Subject to the approval of the Supervisory Board, the Management Board authorizes one or more of its members with the right to represent and be responsible for the operational management of IHB Plc. The members of the Management Board may be re-elected without restriction and discharged by the Supervisory Board at any time. The members of the Supervisory Board and the Management Board of IHB Plc have to be persons who: (a) have not been convicted of certain crimes and (b) have not been members of a management body or a control body or unlimited liability partners in any company dissolved due to insolvency if there unsatisfied creditors left.

The Management Board manages and represents the Company under the control of the Supervisory Board.

The Management Board reports its activities to the Company's Supervisory Board at least once per each period of three months. The Supervisory Board has the right to require that the Management Board submit information or a report on each issue concerning the Company.

Investor Relations Director

In compliance with the provisions set forth in Article 116d of the Law on Public Offering of Securities and Article 38a of the Statute, the Management Board of IHB Plc appoints, under a labour contract, an Investor Relations Director who has relevant qualification and experience for performance of his/ her duties, is not a member of a management body or a control body or a procurator in any public company and meets all other requirements of the Law on Public Offering of Securities on investor relations directors of public companies. In compliance with Article 116 d of the Law on Public Offering of Securities, the main function of the Investor Relations Director is the provision of efficient communication between the Company's Management Board and its shareholders and



investors. The Investor Relations Director is responsible for: (a) presentation of information about the financial and economic positions at the session of the General Meeting and of the Company and any other information to which the shareholders and investors are entitled to; (b) sending of the reports and notices to the Financial Supervision Commission, Bulgarian Stock Exchange – Sofia AD and the Central Depository and (c) taking and keeping of minutes of the sessions of the Management Board and the Supervisory Board.

The Investor Relations Director reports his/ her activity to the shareholders at the General Meeting. The persons, who manage the Company, are under the obligation to assist the Investor Relations Director and control the performance of his/ her duties.

Description of rights and preferences attached to the Company's classes of shares and limitations thereon

In compliance with the Law on Public Offering of Securities, a public company may issue registered dematerialized shares.

In compliance with Article 7, Paragraphs 1 and 2 of the Statute, the Company's shares are registered dematerialized shares giving right to vote, right to dividend and right to liquidation share pro rata the share nominal value.

The dematerialized shares are entered into the registers of the Central Depository in an account in the name of the shareholders. Dematerialized shares are issued and disposed with following registration with the Central Depository.

Shares giving equal rights form an individual class. The rights of individual shareholders of one and the same class of shares may not be limited.

The Company issues ordinary shares, each of which gives the right to 1 (one) vote in the General Meeting, right to dividend and right to liquidation share pro rata the share nominal value. All ordinary shares form one and the same class. The shares issued till present date (i. e. the shares issued upon the Company's foundation) are ordinary and all shares to be issued upon increase in the Company's capital will be ordinary.

In compliance with its Statute, IHB Plc has the right to issue: (a) ordinary (non-preference) shares and (b) preference shares (voting or non-voting) with guaranteed and/ or additional dividend, buyback preference and any and all other preferences allowed by the effective legislation.

Right to vote

The right to vote in the General Meeting of Shareholders is exercised by persons entered as shareholders into the registers of the Central Depository 14 (fourteen) days before the date of the General Meeting. (A buyer of shares entered into the Register of the Central Depository on the 13th (thirteenth) day before the General Meeting may not vote; the right to vote attached to these shares may be exercised by their former holder). The Central Depository provides the Company with a list of the shareholders as at that date (14 /fourteen/ days before the General Meeting). The presence of a person in this list represents a sufficient condition for that person to participate in the General Meeting and to exercise his/ her right to vote following due identification (by an identity card, if an individual or a current status certificate issued by the competent court, if a legal entity and a relevant proof of the identity of its representative). Voting right holders participate in the General Meeting in person or by a proxy authorised by a notarized explicit power of attorney in compliance with Article 116, Paragraph 1 of the Law on Public Offering of Securities.

Right to dividend

The right to receive dividends belongs to the persons entered as shareholders in the registers of the Central Depository on the 14th (fourteenth) day after the date of the General Meeting, at which the annual financial



statements were approved and a decision on profit distribution was adopted. The Central Depository provides the Company with a list of the shareholders as at the aforementioned date. The presence of a person in such list is a sufficient condition for that person to receive a dividend following due identification (see above). In compliance with the Statute of the Company and applicable laws, the Company shall pay dividends to shareholders within 3 (three) months as of the date of holding the General Meeting, at which a decision on profit distribution has been adopted. Costs on dividend payments are for the Company's account. Persons entitled to receive dividends, who have not asked for such dividends within the specified term, may exercise their said rights till expiration of the total five-year period of limitation, after which the right lapses and non-received dividends are retained by the Company.

Dividends are paid only provided that, based on the financial statements for the relevant year as audited by a registered auditor and approved by the General Meeting of Shareholders of the Company, the net worth of assets less dividends and interest payables is at an amount not lower than the Company's capital, the Reserve Fund and other funds, which the Company shall maintain in compliance with its Statute or applicable laws. The net worth of assets is the difference between the value of rights and the liabilities of the Company based on its balance sheet. Payments are made up to the sum of the profit for the relevant year, prior-year retained earnings, the portion of the Reserve Fund and other funds of the Company exceeding the minimum as set forth in its Statute or applicable laws, reduced by prior-year uncovered losses and allocations to the Reserve Funds and other funds, which the Company shall maintain in compliance with its Statute or applicable laws.

Right to liquidation quota

This right is contingent - it arises and may be exercised only in the event that (and insofar as) upon liquidation of the Company and following satisfaction of the claims of all creditors, there are assets left to be distributed among shareholders and up to the amount of such assets. The right to a liquidation quota belongs only to persons entered as shareholders in the registers of Central Depository AD as at the time of dissolution of the Company. A company is dissolved by a decision of the General Meeting of Shareholders in the cases set forth in Article 252 of Law on Commerce. In compliance with the effective legislation, the right to a liquidation quota lapses upon expiration of the total five-year period of limitation.

Summoning of the General Meeting of Shareholders. Shareholders' participation in the General Meeting

In compliance with Article 155, Paragraph 1, Second Sentence of the Law on Public Offering of Securities, the Regular /Annual/ General Meeting of Shareholders shall be held by the end of the first half as of reporting year closure. An Extraordinary General Meeting of Shareholders may be summoned at any time. In their remaining part, the conditions and procedure for summoning and participation of shareholders in Regular and Extraordinary General Meetings coincide.

The General Meeting of Shareholders is summoned by the Management Board or the Supervisory Board. The General Meeting of Shareholders may be also summoned at the request of shareholders who hold at least 5% of the Company's capital in compliance with the provisions of Article 223, Paragraphs 1 and 2 of the Law on Commerce or Article 118 of the Law on Public Offering of Securities.

The summoning is realized through an invitation containing the minimum information set forth in Article 223, Paragraph 4 of the Law on Commerce. Shareholders, holding shares that represent not less than 5% of the Company's capital, may request the inclusion of addition items in the agenda specified in the individual invitation in compliance with the provisions of Article 223a of the Law on Commerce. An invitation shall be published in the State Gazette and a national daily newspaper not later than 30 (thirty) days prior to the date of the General Meeting.

The General Meeting consists of all shareholders having the right to vote. The right to vote is exercised by the persons entered into the registers of the Central Depository 14 (fourteen) days prior to the date of the General



Meeting. They participate in the General Meeting in person or by a proxy authorized with a notarized explicit power of attorney in compliance with Article 116, Paragraph 1 of the Law on Public Offering of Securities. No member of the Management Board or the Supervisory Board shall have the right to represent a shareholder.

Holders of preference shares giving no right to vote and the members of the Management Board and the Supervisory Board, who are not shareholders, participate in the proceedings of the General Meeting but have no right to vote.

Statute provisions restricting the manners of change of the persons who exercise control over the Company

The Statute of IHB Plc contains no such provisions.

In compliance with Article 25 in relation to Article 18, Item 4 of the Statute, the election and discharge of the members of the Supervisory Board requires a majority equal to the statutory one. In compliance with Article 230 of the Law on Commerce, the members of the Supervisory Board are elected and discharged by ordinary majority of all shares represented as set forth in the Company's Statute.

Statute provisions on changes in the Company's capital

The Statute of IHB Plc contains no provisions on changes in the capital that are more restrictive than the ones provided for by applicable laws. In compliance with Article 25, Letter "b" in relation to Article 18, Item 2 of the Statute, the General Meeting shall adopt decisions on capital increase or capital reduction by majority of 2/3, which is the majority set forth in the Law on Commerce.

In compliance with the applicable laws and the Statute of IHB Plc, the Company's capital may be increased through issuance of new shares or conversion of shares into bonds issued as convertible. The capital may not be increased through increase in the nominal value of issued shares or conversion of non-convertible bonds into shares or non-monetary contribution under Article 193 of the Law on Commerce; conditionally – in compliance with Article 195 of the Law on Commerce /except for cases of conversion of convertible bonds into shares/.

Upon capital increase through issuance of new shares, each shareholder is entitled to acquire a number of new shares pro rata his/ her/ its interest in the capital prior to increase. This right may not be limited or withdrawn in compliance with the provisions of Article 194, Paragraph 4 or Article 196, Paragraph 3 of the Law on Commerce. Upon capital increase through issuance of new shares, rights under §1, Item 3 of the Law on Public Offering of Securities are granted – 1 (one) right per share. The ratio of granted rights and a new share is specified in the particular decision on the Company's capital increase. As to the terms and conditions governing the Company's capital increase, see the Document of the Offered Securities.

The Company's capital may be reduced through cancellation of bought back shares – issued preference shares giving the right to buyback. The Company may issue such shares in compliance with Article 14 of its Statute. The capital may not be reduced through compulsory buyback of shares or buyback in compliance with Article 111, Paragraph 5 of the Law on Public Offering of Securities.

Particular obligations to disclose information in compliance with the Bulgarian legislation

In compliance with the Law on Public Offering of Securities of 2002, a shareholder who acquires or transfers, directly and/ or through the procedure set forth in Article 146 of the Law on Public Offering of Securities, his/ her/ its right to vote in the General Meeting of Shareholders of IHB Plc is under the obligation to notify IHB Plc and the Financial Supervision Commission in case: (1) such right reaches, goes over or below 5% or a figure divisible by 5% as a result of the acquisition/ transfer; (2) such right reaches, goes over or below 5% or a figure divisible by 5% as a result of other events changing the total number of voting rights based on information



disclosed by IHB Plc upon each change in the capital in compliance with Article 112e of the Law on Public Offering of Securities.

Voting rights are calculated on the basis of the total number of voting shares no matter whether the exercising of the right to vote is limited. Such calculation is made for each individual class of shares.

In some cases the requirement on notification does not apply, for example in cases of voting rights attached to shares acquired with the sole purpose of clearing and settlement within the usual settlement cycle that may not be longer than 3 (three) working days as of transaction conclusion date or shares held by trustees provided that they are entitled to exercise the voting rights attached to such shares only at customer's order in writing or electronic form.

The obligation to notify shall be fulfilled immediately but not later than 4 (four) working days as of the day on which the shareholder or the actual holder of the voting rights: (1) learns about the acquisition or transfer or the option to exercise the voting rights in compliance with Article 146 of the Law on Public Offering of Securities or on which, in consideration of the particular circumstances, was under the obligation to learn regardless of the date of acquisition or transfer or arising of the option to exercise the voting rights; (2) is notified that his/ her/ its voting right has reached or gone over or below 5% or a figure divisible by 5% of the total number of votes in the General Meeting of IHB Plc as a result of events changing the total number of voting rights based on information disclosed in compliance with Article 112e of the Law on Public Offering of Securities. This obligation is also binding on persons who hold, directly or indirectly, financial instruments entitling them to acquire, at own initiative and by virtue of a written agreement, shares giving rights to vote in the General Meeting of IHB Plc.

IHB Plc is under the obligation to publicly disclose the information given in the notices under this paragraph within 3 (three) working days as of notice date.

The members of the management and control bodies of the public company are under the obligation to notify the Company, the Financial Supervision Commission and the Bulgarian Stock Exchange of: (a) any and all legal entities holding, directly or indirectly, 25% or over 25% of the voting rights or exercising control thereon; (b) any and all legal entities that participate in the supervisory and management bodies or have been appointed procurators or (c) any and all present or future transactions as to which they are of the opinion that they may be defined as interested parties. Any failure in compliance with the aforementioned requirements shall be considered an administrative violation of the Bulgarian legislation.



22. MATERIAL CONTRACTS

IHB Plc and its subsidiaries signed no contracts other than contracts related to their ordinary activities in the last two years preceding the publication of this Registration Instrument.

As at the date of this Registration Instrument there are no contracts signed by IHB Plc or its subsidiaries that contain provisions providing for an obligation or a right of each member of the economic group, which is material for the Group.



23 INFORMATION ABOUT EACH COMPANY WHERE THE ISSUER HOLDS CAPITAL INTEREST WHICH MIGHT HAVE SIGNIFICANT IMPACT ON THE VALUATION OF ITS ASSETS AND LIABILITIES, ITS FINANCIAL POSITION OR PROFIT AND LOSS

BULYARD AD

- a/ Seat and address of management: 47 Vasil Levski Boulevard, Sofia
- b/ Scope of activities: Shipbuilding, ship repair, commercial navigation, trade, representation, intermediation and agency, foreign economic activities, marketing, consulting and design activities as well as any other activity not forbidden by law
- c/ Number of directly held shares and their percentage in the votes in the General Meeting of Shareholders of the company:
22 935 183 shares of BGN 1 each, i.e. 61.50% of the number of votes in the General Meeting of Shareholders
- d/ Capital as at 30 June 2007: BGN 37 292 980 /thirty-seven million two hundred ninety-two thousand nine hundred and eighty
- e/ Carrying amount of the interest as at 30 June 2007:
BGN 25 591 thousand
- f/ Reserves as at 30 June 2007: BGN 21 thousand
- g/ Loss for the last 2006 financial year:
BGN 2 thousand
- h/ Dividends received for the last financial year:
For 2006 – no dividend
- i/ IHB Plc payables and receivables in relation to the interest in the company:
None

ZMM BULGARIA HOLDING AD

- a/ Seat and address of management: 47 Vasil Levski Boulevard, Sredets Municipality, Sofia
- b/ Scope of activities: Production of goods in the field of machine building and the accompanying industrial productions, respectively sales of such goods; commercial representation and intermediation; warehouse activities; acquisition, management, assessment and sale of interests in Bulgarian and foreign companies; acquisition, assessment and sale of patents, ceding licenses for use of the patents to the companies in which the Holding owns interests; financing of the companies, in which the Holding owns interests; any other activity not forbidden by law.
- c/ Number of directly held shares and their percentage in the votes in the General Meeting of Shareholders of the company:



5 591 900 shares of BGN 1 each, i.e. 99,998% of the number of votes in the General Meeting of Shareholders

Number of shares held through a related party and their percentage in the votes in the General Meeting of Shareholders of the company:

100 shares of BGN 1 each, i. e. 0,002% of the number of votes in the General Meeting of Shareholders

d/ Capital as at 30 June 2007:

BGN 5 592 000/five million five hundred and ninety-two thousand/

e/ Carrying amount of the interest as at 30 June 2007:

BGN 7 885 thousand

f/ Reserves as at 30 June 2007:

BGN 1871 thousand

g/ Net profit for the last 2006 financial year:

BGN 2 963 thousand

h/ Dividends received for the last financial year:

For 2006 – BGN 3 020 thousand

i/ IHB Plc payables and receivables in relation to the interest in the company:

IHB Plc has a receivable amounting to BGN 2 080 thousand in relation to the dividend due for 2006.

PRIVAT ENGINEERING AD

a/ Seat and address of management:

42 D. Gruev Street, Sofia

b/ Scope of activities:

Engineering in the country and abroad, licenses, know-how, technology transfer, trade in the country and abroad as well as any other activity not forbidden by law.

c/ Number of directly held shares and their percentage in the votes in the General Meeting of Shareholders of the company:

2 800 000 shares of BGN 1 each, i. e. 92.72% of the number of votes in the General Meeting of Shareholders

Number of shares held through a related party and their percentage in the votes in the General Meeting of Shareholders of the company:

220 000 shares of BGN 1 each, i. e. 7.28% of the number of votes in the General Meeting of Shareholders

d/ Capital as at 30 June 2007:

BGN 3 020 000 /three million and twenty thousand/;

e/ Carrying amount of the interest as at 30 June 2007:

BGN 2 800 thousand

f/ Reserves as at 30 June 2007:

BGN 2 647 thousand

g/ Net profit for the last 2006 financial year:

BGN 1 625 thousand



h/ Dividends received for the last financial year:

For 2006 – no dividend

i/ IHB Plc payables and receivables in relation to the interest in the company:

None

DOUNAV TOURS AD

a/ Seat and address of management:

22B Pristanishtna Street, Rousse

b/ Scope of activities:

Hotel operation, restaurant operation, foreign economic activity, operation of ships, sales of imported goods and locally manufactured goods, organization of excursions in the country and abroad, transport, information, public utility, advertisement, sports, animation, cultural and other additional services related to international and domestic tourism, as well as any other activity not forbidden by law.

c/ Number of directly held shares and their percentage in the votes in the General Meeting of Shareholders of the company:

234 840 shares of BGN 1 each, i.e. 48.44% of the number of votes in the General Meeting of Shareholders

d/ Capital as at 30 June 2007:

BGN 484 815 /four hundred eighty four thousand eight hundred and fifteen/;

e/ Carrying amount of the interest as at 30 June 2007:

BGN 2 762 thousand

f/ Reserves as at 30 June 2007 /on consolidated basis/:

BGN 8 223 thousand

g/ Net profit for the last 2006 financial year:

BGN 713 thousand

h/ Dividends received for the last financial year:

For 2006 – no dividend

и i/ IHB Plc payables and receivables in relation to the interest in the company:

None





24 GENERAL INFORMATION

National daily newspaper used by IHB Plc for publication of the invitation for the summoning of the General Meeting of Shareholders

The invitation for the summoning of the General Meeting of Shareholders of IHB Plc is published in the State Gazette and in Dnevnik Newspaper.

Documents referred to in the Prospectus

This Registration Instrument refers to the following IHB Plc documents submitted to the Financial Supervision Commission, which are available at IHB Plc addresses indicated below, and namely:

- 1) IHB Plc Management Reports for 2006, 2005 and 2004 – consolidated and unconsolidated;
- 2) Declarations in compliance with Article 81, Paragraph 5 of the Law on Public Offering of Securities as to the information in the Prospectus, signed by the members of the Company's Management Board who have prepared IHB Plc financial statements and by the registered auditor;
- 3) Financial Statements:
 - A) Consolidated Financial Statements

Audited consolidated financial statements of IHB Plc for 2006, 2005 and 2004, each set of which includes:

Independent Audit Report
Income Statement
Annual Balance Sheet
Equity Statement
Cash Flow Statement
Notes to the Financial Statements

B) Unconsolidated Financial Statements

Audited unconsolidated financial statements of IHB Plc for 2006, 2005 and 2004, each set of which includes:

Independent Audit Report
Income Statement
Annual Balance Sheet
Equity Statement
Cash Flow Statement
Notes to the Financial Statements

C) **Unaudited** Consolidated Interim Financial Statements of IHB Plc as at 30 June 2007

D) **Unaudited** Consolidated Interim Financial Statements of IHB Plc as at 30 June 2007



Documents available for examination

Copies of the following documents will be available for examination within the usual working hours of the week (excluding Saturday, Sunday and official holidays) at the office of IHB Plc – 47 Vasil Levski Boulevard, Sofia, Bulgaria, as well as at the website of IHB Plc – www.bulgariaholding.com for the term of validity of the Prospectus as of the date of its publication, and namely:

- 1) The Statute of IHB Plc;
- 2) The Prospectus, consisting of this Registration Instrument, the Document of the Offered Securities and the Summary, including any and all documents enclosed thereto and any and all documents referred to in the Prospectus as indicated above.
- 3) Subsequent financial statements of IHB Plc, accompanied by audit reports, following preparation and publication.

Assumption statements

This Registration Instrument contains certain statements that present the current vision and expectations of IHB Plc or of the members of its Management Board or Supervisory Board as to the financial results, business strategy, plans and objectives of the Management regarding future activities.

These assumptions concern IHB Plc and the sectors and industries where the economic group companies operate. Statements, containing words such as ***expect(s), intend(s), plan(s), believe(s), envisage(s), assume(s), will, going to, aim(s) at, strive(s) for, may, might, continue(s)*** and other similar statements related to the future, represent projections for the purposes of the Bulgarian legislation governing securities and other purposes.

All assumptions contained herein concern issues as to which risks and uncertainty exist. Therefore, there exist and may arise material factors that might result in material difference between the actual results of IHB Plc and the projected ones. These factors include but are not limited to the factors described in *Item 4. Risk factors* of this Registration Instrument, and should be considered in relation to the other precaution statements disclosed herein. Any and all assumption statements herein present the current vision and expectations of IHB Plc as to future events and form the subject of these and other risks, uncertainty and assumptions related to the activity, operating results, development strategy and liquidity of IHB Plc.

Any and all assumption statements are actual as at the date of this Registration Instrument only. Beyond the scope of obligations in compliance with the Bulgarian legislation and the Rules of the Bulgarian Stock Exchange, IHB Plc makes no commitment to publicly revise or comment on any assumption statement as a result of additional information or newly occurred circumstances or other similar. This should be considered with regard to any and all subsequent written or verbal assumption statements of IHB Plc or persons acting on behalf of IHB Plc. Potential investors should carefully consider the factors presented herein, that might result in difference between the actual results of IHB Plc and the ones presented herein prior to adopting any investment decision.

Disclosure of financial information

Unless specified otherwise, the financial information disclosed in this Registration Instrument has been prepared in compliance with the International Financial Reporting Standards (**IFRS**).

Any person, considering acquisition of shares, should rely on own investigation of IHB Plc, the offering terms and conditions and the financial information disclosed in this Registration Instrument.



Soma data presented herein, including financial data, have been rounded and approximated. In this relation, in individual cases the total amounts in some table columns or rows or percentages expressed herein may not precisely correspond to the total figure given in the particular column or row.

Disclosure of market and economic information

The market, economic and industrial information contained in this Registration Instrument is based on various professional and other independent sources. The accuracy and completeness of such information are not guaranteed.

The information, contained in this Registration Instrument, about the industries where the Group's companies and their competitors operate is based on publicly available information, including publications and information disclosed in compliance with the provisions of the effective legislation governing securities and other statutory regulations. IHB Plc hereby confirms that this information has been accurately reproduced using the relevant sources and, insofar as the Issuer is aware and able to ascertain, no facts that might present the reproduced information in inaccurate or misleading manner have been omitted. And yet, IHB Plc has relied on the accuracy of this information without carrying out an independent inspection. Therefore, IHB Plc undertakes responsibility only for the accurate reproduction of excerpts from the relevant sources of information. The Issuer undertakes no additional or other responsibility for the information reproduced.



Information about the place, time and manner in which additional information may be obtained, including address, telephone, working hours and contact person

Investors may obtain additional information at the offices of the Issuer and the Authorized Investment Intermediary indicated in the table below.

Investors, interested in the securities offered, may get acquainted with the original of and obtain a free-of-charge copy of or additional information about this Registration Instrument at the offices of:	
THE ISSUER:  INDUSTRIAL HOLDING BULGARIA	Industrial Holding Bulgaria PLC Address: 47 Vasil Levski Boulevard, 1000 Sofia Telephone: +359 2 980 71 01 Fax: +359 2 980 70 72 E-mail: ir@bulgariaholding.com Person contact: Ms. Bogomila Ivanova Hristova Investor Relations Director 10.00 h – 16.00 h
THE AUTHORIZED INVESTMENT INTERMEDIARY: 	First Financial Brokerage House OOD Address: Floors 4 & 5, 2 Enos Street, 1408 Sofia Telephone: +359 2 810 64 00 Fax: +359 2 810 64 01 E-mail: office@ffbh.bg Person contact: Ms. Elena Nencheva Dimitrova Mr. Svetozar Abrashev 8.45 h – 17.45 h

This Registration Instrument may be found at www.bulgariaholding.com – the website of Industrial Holding Bulgaria AD and at www.ffbh.bg – the website of First Financial Brokerage House OOD.



Persons responsible for the information used upon preparation of this Registration Instrument:

Ms. Bogomila Hristova
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of Industrial Holding Bulgaria PLC*

Ms. Neli Kircheva
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Ms. Toshka Vasileva
*Chief Accountant
of Industrial Holding Bulgaria PLC*

Ms. Elena Dimitrova
*Financial Analyzer
at First Financial Brokerage House OOD*

The undersigned person, in the capacity of Representative of Industrial Holding Bulgaria PLC, hereby declares the compliance of this Registration Instrument with the provisions of applicable laws by her signature.

Ms. Daneta Zheleva
Executive Director