INDUSTRIAL HOLDING BULGARIA

INDUSTRIAL HOLDING BULGARIA AD

ANNUAL MANAGEMENT REPORT AND
SEPARATE FINANCIAL STATEMENTS
As at 31 December 2013

INDUSTRIAL HOLDING BULGARIA AD

Contents

General information

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Boyko Nikolov Noev
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ANNUAL MANAGEMENT REPORT
OF INDUSTRIAL HOLDING BULGARIA AD
for 2013

Dear Shareholders,

In 2013 Industrial Holding Bulgaria AD (IHB AD) and most of the companies in the Group improved their results despite the unstable economic and business environment. Most companies in the Group reported growth in sales in comparison with the prior year – income from maritime transport shows growth of 33.43%, from port business – 23%, from ship repairing – 10%. Sales from metal cutting machinery fell by 3%. Operating expenses were optimised, internal group reserves were fully utilised thus increasing productivity.

In 2013 IHB continued its investments in one of the portfolio priority sectors – maritime transport, where BGN 6,116 thousand was invested.

The unconsolidated financial results of IHB for 2013 are as follows:

The unconsolidated revenue of IHB increased by 18.87 % as compared to 2012.

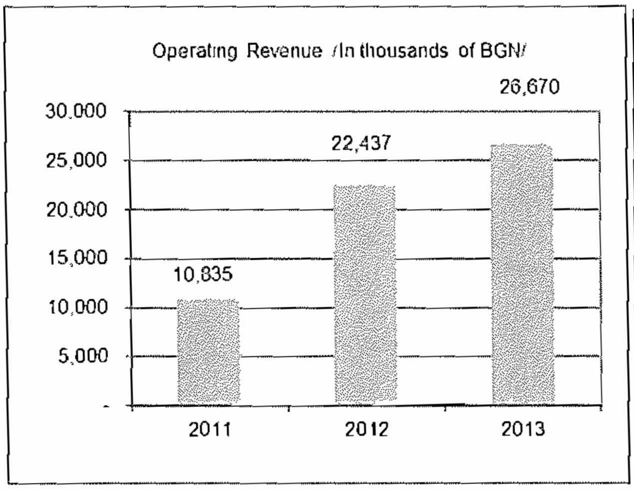
The unconsolidated profit increased by 101.6% and amounts to BGN 11,922 thousand compared with BGN 5,914 thousand in 2012.

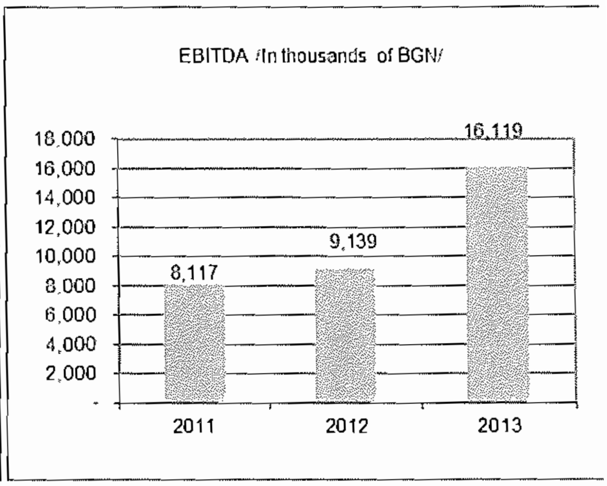
The unconsolidated assets of IHB AD marked a 1.3 % growth as compared to 2012.

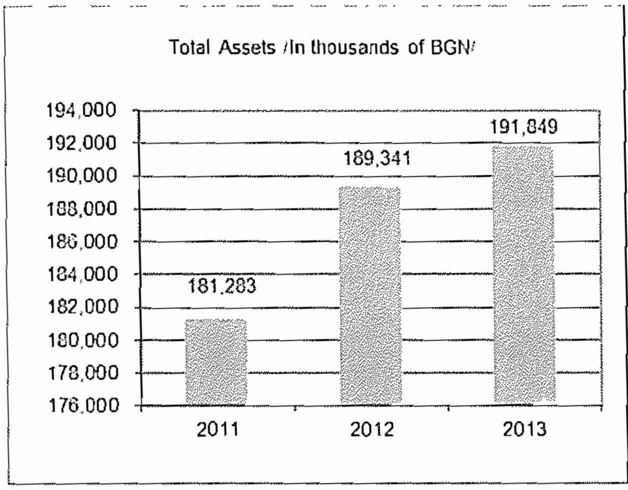
The net asset growth is 7.63% as compared to 2012.

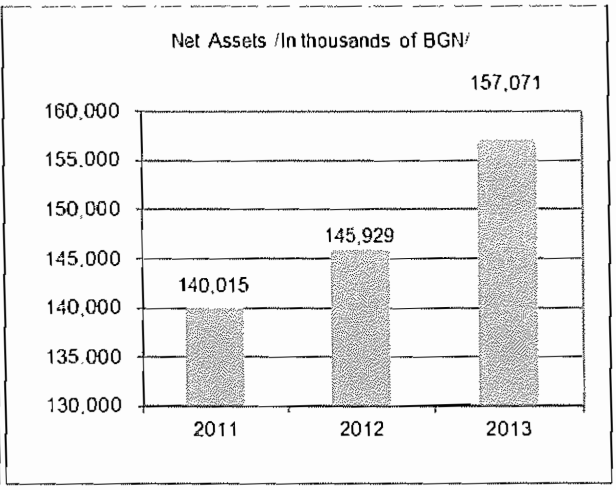
The indices of the Bulgarian capital market in 2013 showed growth as follows: SOFIX 42.58%, BG40 27.02% increase and BGTR30 35.35% increase. The shares of IHB AD have grown by 21% in 2013.

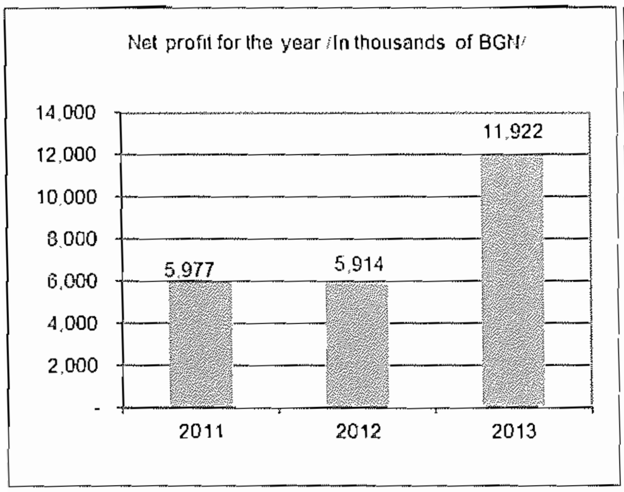
IHB's financial ratios for the last 3 years /unconsolidated/

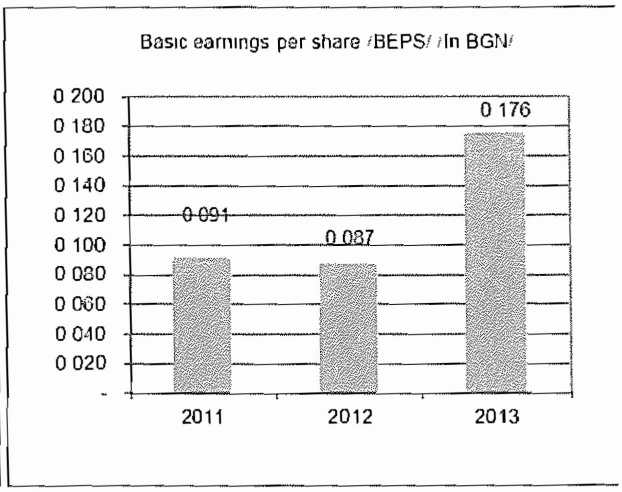


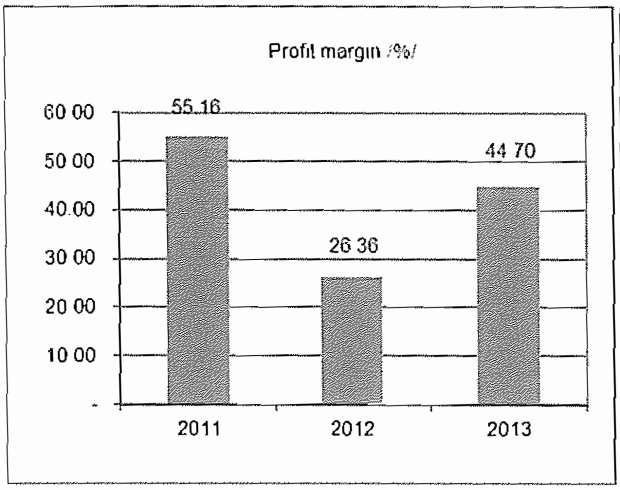


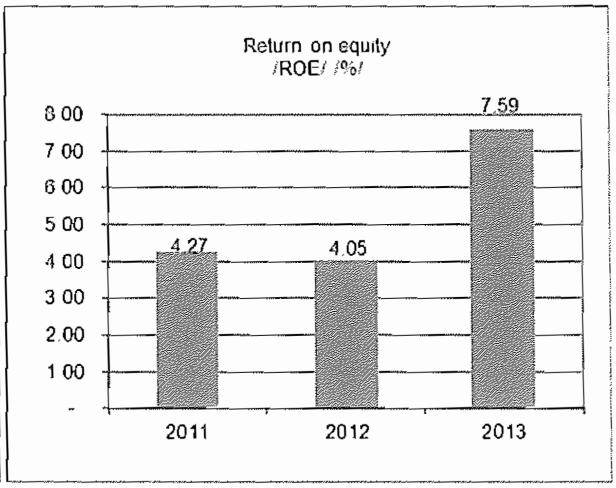


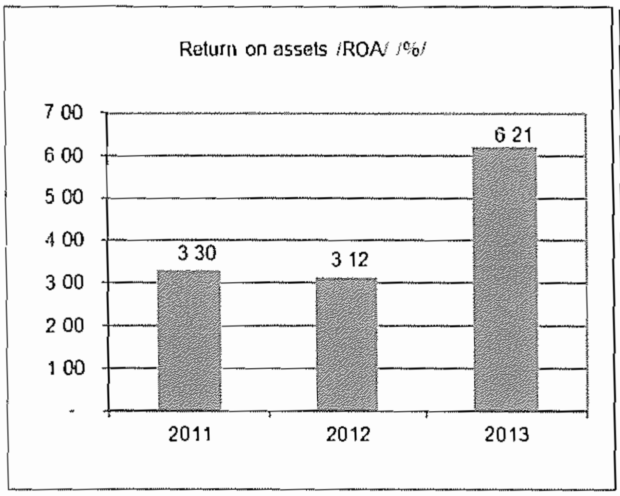


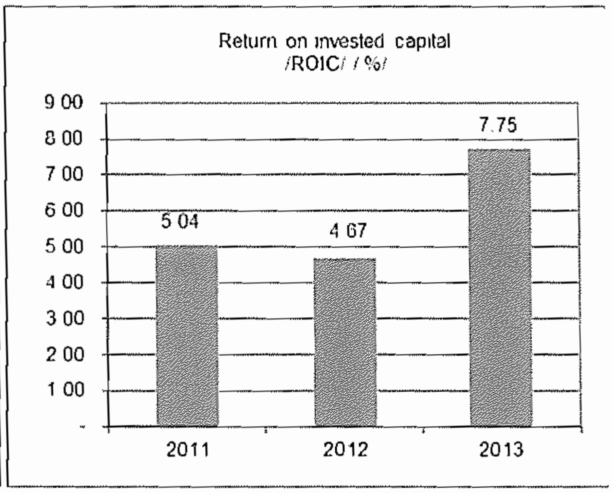


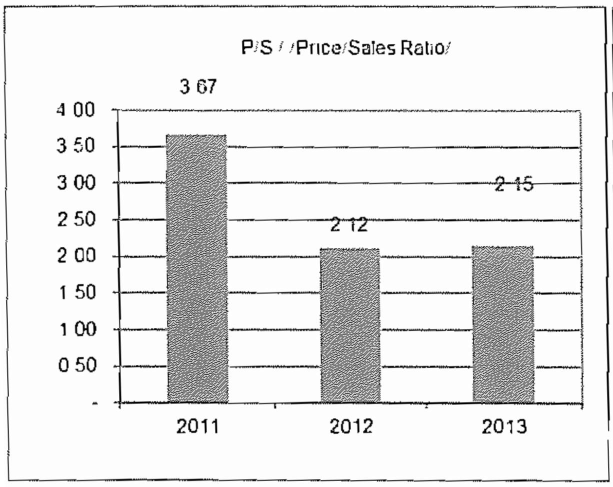


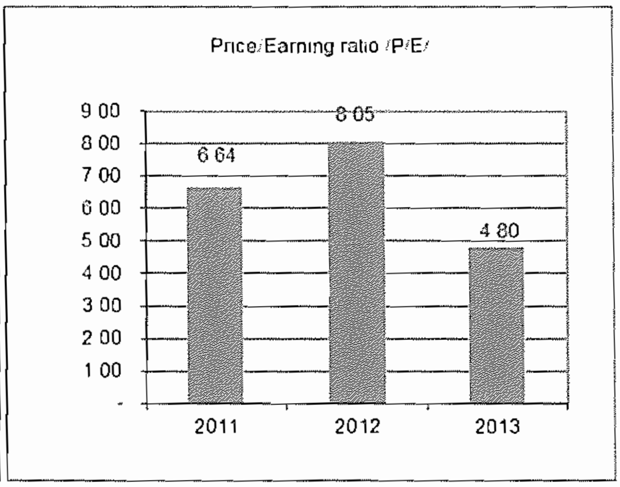

Profit margin /%/
60 00
50 00
40.00
30 00
20 00
10 00
-
55.16
26 36
44 70
2011
2012
2013


Return on equity
/ROE/ /%/
8 00
7 00
6 00
5 00
4 00
3 00
2.00
1 00
-
4.27
4.05
7.59
2011
2012
2013


Return on assets /ROA/ /%/
7 00
6 00
5 00
4 00
3 00
2 00
1 00
-
3 30
3 12
6 21
2011
2012
2013


Return on invested capital
/ROIC/ / %/
9 00
8 00
7 00
6 00
5 00
4 00
3 00
2 00
1 00
-
5 04
4 67
7.75
2011
2012
2013


P/S / /Price/Sales Ratio/
4 00
3 50
3 00
2 50
2 00
1 50
1 00
0 50
-
3 67
2 12
2 15
2011
2012
2013


Price/Earning ratio /P/E/
9 00
8 00
7 00
6 00
5 00
4 00
3 00
2 00
1 00
-
6 64
8 05
4 80
2011
2012
2013

1. Operating results for 2013

IHB's financial results - unconsolidated

IHB's revenue for 2013 amount to BGN 26,670 thousand, with a growth of 18.87% as compared to 2012 /BGN 22,437 thousand/. In 2013 revenues were generated by:

- Interests resulting from loans granted to companies in the portfolio and interests from deposits;
- Dividends resulting from subsidiary management;
- Services rendered, etc.
- Gain from derecognition of financial liability on shareholders' rights sold

Dividends were received by companies ZMM Bulgaria Holding, Maritime Holding, and Dockyard Port Burgas with a total amount of BGN 4,633 thousand (BGN 6,254 thousand in 2012).

Interest income amounts to BGN 3,735 thousand compared to BGN 3,961 thousand for 2012. It is generated mainly through interest on loans granted, deferred receivables on commercial contracts and interest from deposits and bank accounts.

The profit after tax in 2013 amounts to BGN 11,922 thousand, with a growth of 101.6% compared to the 2012 profit which amounted to BGN 5,914 thousand. The profit growth is due to the fact that in 2013 was reported income from financial liabilities written-off in the amount of BGN 18,260 thousand (net of taxes BGN 16,434 thousand) and decrease of impairment of IHB's investment in the amount of BGN 9,125 compared to BGN 12,161 in 2012.

IHB's Operating Results

Organizational changes in the Group. Portfolio restrncturing

In 2013 no organizational changes and portfolio restructuring was made.

Increase of the participation in some companies from the portfolio

In May 2013 (20/05/2013) in the Commercial Register was registered the capital increase of subsidiary KLVK AD which increased from BGN 20,186,503 to BGN 22,386,503. The increase was fully subscribed for by Industrial Holding Bulgaria AD and capital was paid in full.

On 30.09.2013 in Trade Register was registered "Agro money" AD. Industrial Holding Bulgaria AD subscribed for 66% of the shares. As at the date of the report it has been decided to liquidate the company.

The total amount of the funds invested directly by IHB (unconsolidated) in corporate securities in 2013 is BGN 6,182 thousand compared to BGN 32,497 thousand in 2012.

The management believes that there are indications that the investment in Bulyard AD may be impaired as at 31 December 2013. IHB has tested the main asset in Bulyard AD – the shares of Bulyard Shipbuilding Industry EAD (Bulyard SI). The analysis is based on the value of the assets which will not be used for ship repairs (these assets were measured at fair value by Advance Address Valuations EOOD), and the assets which will continue to be used in the company's core operations, measured based on the value in use for a 5-year period. The calculations are based on the financial projections prepared by the management of Bulyard Shipbuilding Industry EAD. The average discount rate used in the calculations is 11.58 %. As a result of the calculations made the company has assessed that the investment has to be written down by BGN на 9,125 thousand. The investment amounts to BGN 2,557 thousand after the impairment.

As at 31 December 2013 the IHB portfolio, directly and through related parties, is formed by 27 companies as follows: 9 subsidiaries, 1 associate, and 17 subsidiaries of subsidiaries. IHB's direct investments in corporate securities as at the year-end amount to BGN 122,784 thousand.

IHB portfolio structure as of 31 December for the last 4 years

Business lines	2013	2012	2011	2010
Maritime transport	84.0%	77.1%	60.8%	52.3%
Shipbuilding and ship repair	2.1%	9.3%	24.2%	29.4%
Port activities	5.2%	5.1%	3.6%	4.4%
Machine building	6.4%	6.3%	7.4%	9.0%
River cruises	0%	0%	2.6%	3.2%
Other	2.3%	2.2%	1.4%	1.7%
Investments in BGN thousand	**122,784**	**125,727**	**109,008**	**87,097**

Management of subsidiaries

Pursuing the goals set at the start of the year regarding its subsidiaries in 2013 IHB continued to participate actively in the strategic planning of their operations. IHB encouraged and facilitated:

- the implementation of investment events;
- the improvement of their products and services, development and production of new products and services depending on market demand;
- improvement of marketing activities, human resource management and other corporate management related operations;
- ensuring funding for the operating and investment activities of the companies;
- analysis and assessment of the options for use of new internet technologies.

Participation in the process of business planning and control of the results achieved

IHB management sets the strategic goals and results to be reached by each company during the year. Each executive has a personal business assignment related to the operating priorities of the company.

Cooperation for funding of the subsidiaries. Information about transactions

IHB assists with funding of the operations of the companies in the Group by granting loans and cooperating in negotiations for bank financing.

In 2013 the subsidiaries (direct and indirect) were granted BGN 6,623 thousand of loans. In 2013 loans amounting to BGN 2,803 thousand were repaid. As at 31 December 2013 the receivables on loans granted to subsidiaries amount to BGN 66,816 thousand /long-term BGN 62,853 thousand and short-term BGN 3,963 thousand /as compared to BGN 59,601 thousand in 2012 (total long-term and short-term)/.

In 2012 and 2013 guarantees provided by IHB to its subsidiaries were in the form of corporate guarantees and surety.

In 2013 IHB's subsidiaries funded their operations through bank loans from Allianz Bank Bulgaria AD, DSK Bank EAD, United Bulgarian Bank AD, Bulgarian Development Bank, SG Express Bank and Unicredit Bulbank.

The interests agreed for the loans used by the subsidiaries range between EURIBOR + 4.2% to 5.89% for loans in EUR, SOFIBOR + 3.8% to 5% for loans in BGN, LIBOR + 2.25% to 5% for loans in USD and JBIC + CIRR + Risk premium + 2.5% for loans in Japanese yen.

In 2013 there were no large transactions other than investments in subsidiaries and contracts for funding of subsidiaries.

Related parties transactions in 2013 represented provisions of loans by IHB to the companies in the Group and interest income, respectively interest expense, repayment of loans by IHB's companies and back, income from rendering of services, capital increase contributions, income from sale of shares and dividend income. No unusual terms and conditions or departures from the market conditions exist in the transactions executed during the period.

Information about transactions concluded between IHB and related companies during the year may be found in Note 21 Related Party Disclosures of the Notes to the Separate Financial Statements as at 31 December 2013, which indicates the type and value of the transactions and the nature of the relation.

There have been no other proposals for conclusion of such transactions and transactions outside its usual activity or substantially deviating from the market conditions to which IHB or its subsidiary is a party.

The loans which IHB granted to / received from its companies in 2013 are at an interest rate of 4% to 6%.

In 2013 there are no events and indications of unusual nature for IHB with material impact on its business.

As at 31 December 2013 IHB provided guarantees for liabilities of related companies as follows:
IHB has a contract for provision of a credit limit for issuance of bank guarantees, opening of letters of credit and working capital financing from 2006 with a commercial bank with credit limit of BGN 10 million and options for utilisation in BGN, EUR and USD. The commitment of the bank for issuance of bank guarantees and opening of letters of credit is by 26.08.2018. The collateral for this contract is a pledge of commercial undertaking KRZ Port Bourgas AD. In 2013 was added new security under the credit agreement - a guarantee by BULYARD Shipbuilding industry securing part of the limit provided in the form of working capital

As of 31 December 2013 bank guarantees amounting to BGN 748 thousand were issued (compared BGN 30 thousand in 2012), securing advance payments from clients, letters of credit were opened to Bulyard Shipbuilding Industry EAD for BGN 573 thousand (compared to BGN 4,685 thousand in 2012) and a revolving credit line for working capital financing for BGN 3,000 thousand.

In February 2010 and in August 2011 Industrial Holding Bulgaria AD signed contracts with a commercial bank pursuant to which it became the guarantor for a signed credit contract for USD 20,000 thousand granted by the bank to subsidiary Privat Engineering AD with remaining balance of USD 12,472 thousand as of 31 December 2013.

Industrial Holding Bulgaria AD provided a guarantee in relation to an option for participation of its subsidiary Rekolta 2011 EAD with investment intention jointly with Alpha Finance Holding AD and Diamond Solar Europe Limited (100% owned by Mitsubishi Corporation). The guarantee amounts to EUR 3,700 thousand and it is secured. In April 2013 the parties settled its relationship and IHB commitment was terminated.

Internal Control System and Audit Committee

There is an Internal Control Department at IHB, which reviews the activities and finances of the companies in the IHB Group. On 7 May 2009 the General Assembly of the shareholders of IHB selected an Audit Committee as an auxiliary body to the Supervisory Board. For members of the Audit Committee with a mandate of 3 years were selected Maxim Sirakov – chairperson, Snezhana Hristova, and Boryana Dimova. On the General Meeting of Shareholders held on 17 December 2012 the mandate of the Audit Committee was renewed.

2. Financial resources management. Financial instruments used. Financial risk management.

Description of the main risks and uncertainties facing the Company

The main financial undertakings of the company are connected to investment projects of its subsidiaries.

With regard to receivables, when there is an uncertainty as to their collectability, the companies make the respective impairments.

Bulyard Shipbuilding Industry has liabilities under bank loan in Japanese yen.

IHB has liabilities to bond holders in relation to the issue of convertible bonds in 2013 which mature on 18 October 2015. IHB has a credit line for issuance of bank guarantees, opening of letters of credit and working capital financing to IHB and its subsidiaries from a commercial bank. The limit amounts to BGN 10,000 thousand.

IHB has provided guarantees and sureties to secure liabilities of its subsidiaries. At this stage there is no risk that the subsidiaries may fail to discharge their obligations associated with the guarantees issued. IHB has a signed contract with a commercial bank under which it is a guarantor on loan agreements with a balance as at 31 December 2013 of USD 12,472 thousand granted by the bank to the subsidiary Privat Engineering AD. IHB AD has provided a guarantee in relation to the option of the participation of its subsidiary Rekolta 2011 EAD in an investment intention jointly with Alpha Finance Holding and Diamond Solar Europe Limited (100% owned by Mitsubishi Corporation). The guarantee is at the amount of EUR 3,700 thousand and it is secured. In April 2013 the parties settled its relationship and IHB commitment was terminated.

KVLK, a subsidiary of IHB, is a joint debtor of Serdika Ltd. under a bank loan from a commercial bank maturing in March 2014. The loan was received for the acquisition of the Diamond Sea ship, and as at 31 December 2013 the balance is USD 33,407 thousand.

Further information regarding the risk management of IHB is provided in Note 23 Financial Instruments in the separate financial statements.

Trends for the businesses where IHB and the companies in the Group operate

Maritime transport

From the end of October 2012 with launching the sixth ship of the group, IHB Shipping Co EAD became a medium tonnage operator and in Bulgaria is the second largest operator / manager (following Navigation Maritime Bulgare (NAVIBULGAR®)) in total tonnage of managed ships. 2013 was a difficult year for the maritime transport. The first three quarters were even lower than 2012 but 4Q 2013 registered significant growth.

The state of the market in 2013 was determined by the demand for services driven by the growth of production and consumption in developed and developing countries, port overloading capacities or aggregation of many ships on them and others. This year the demand for tonnage is again determined by China. Imports into Europe are close to the levels of 2012. Preliminary data show increased demand for bulk carriers.

Significant role in upward or downward movement of the market will have the situation in market of scrapped vessels. In 2013 58.7 DWT was launched while 22.1 DWT were scrapped. Things look little bit brighter in the Handysize sector for ships such as Karvuna and Antea. The tonnage scrapped exceeds deliveries by 0.5 DWT.

It is expected 2014 to launch a recovery. Again, expectations are low for the first half of the year, especially the first quarter. If the trend of steady deliveries, combined with scrapping rates of the past two years remains, we can expect a better year, easing the pressure on the market caused by the new deliveries and improved growth levels of charter rates / freight rates in this segment. Considering the above trends coupled with the gradual recovery of the global economy we can forecast a slight increase in rates in 2014.

Shipbuilding and ship repairing

The main efforts of Bulyard Shipbuilding Industry since the beginning of 2013 are directed to ship repairing, reconstruction of vessels and production of metal hulls and ship sections. It should be pointed that the crisis in which the shipping industry was plunged by the end of 2008, limited to certain extend the operating expenses of ship owners, including ship repairing. In overall the factories specializing in ship repairing, reconstruction and maintenance reported a decline . Low prices, cheap labor and available resources allow factories in China to offer dumping prices and kill competition in European factories. With the advent of "light in the tunnel" - the growth of bulk freight rates in the second half of August 2013 – appeared the demand for repairing options in other areas, incl. the Black Sea.

Unfortunately, the disadvantage still remains that the entry in the Black Sea must be combined with the availability and opportunities for cargo in the area, fees and the "indefinite" (influenced by climatic conditions) crossing time through the Bosphorus.

At the same time, the existing requirements regarding ships technical safety standards are strengthened and new ones implemented, leading to the necessity for more frequent repairs, which in turn is a favourable factor for ship repair operations.

Opportunity to further increase the capacity of Bulyard SI is provided by the requirements of the International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM) which will require most ships to install an on-board ballast water treatment system.

Bulyard SI has an extensive capacity to repair ships ranging from small 5,000 ton to large 80,000 ton vessels. In 2014 the company is looking to maintain its production capacity in the area of ship repairing, conversion of vessels, hull manufacturing and manufacturing of large metal construction and ship sections. The company has the capacity to rent the free space and warehouses or use them for other production. Income from sale of non-operating assets, mainly machinery and equipment will be realised.

Port business

The trends in the port business depend on the economic climate at the global, domestic and regional levels. There is a worldwide increase in the maritime transport of goods at the expense of land transport. Since the ports of Dockyard Port – Bourgas and Odesos PBM are of regional importance, their fate depends on the economy of the southeastern and northeastern regions of Bulgaria, the slow-down of construction in tourism and the increase of infrastructural projects. Their activity will also develop in the direction of an increased cargo flow of grain, which is related to a lasting trend for increase of agricultural activities in the southern and southeastern parts of Bulgaria.

During 2013 Dockyard Port – Bourgas aimed to attract new cargos and customers and to further develop and modernize its port infrastructure. During 2013 the relative share of bulk cargos of food/ grain origin increased compared to prior year, as the biggest relative share increase is that of sunflower and rape.

With regard to general cargo the efforts are aimed towards direct cargo processing as a way to increase port capacities. The company has the capacity to process new cargo – fertilizers, ferrous metal, etc. Insignificant decrease was noted in the relative share of general cargo compared to 2012. The Company found opportunities to attract new cargos for handling. Further, the cargo-handling equipment was renewed to a great extent.

In 2014 gradual increase of the cargo turnover is expected. Taking into account its capacity and the opportunities presented by the increased export, in 2013 Odesos PBM expanded the volume of processed cargo, improved the utilisation of the quay wall and offered new services. The objective of Odesos PBM was further to attract new strategic clients – retailers of plywood, wood products and agricultural fertilizers, for which the port will rely on flexible processing options, maximum use of available resources and speedy work.

The parameters of port Bulport logistics provide a good opportunity for future growth and development. The sea area is spacious and has sufficient depth that provides favourable conditions for increasing the number of mooring spaces and serviced vessels.

Durint 2013 Bulport Logistika was mainly working on the local market. Services offered during 2013 were in the range of accommodating small vessels and yachts and also small ships for ship repair, as well as renting out spaces for warehouse and production activities. In 2013 weak increase of the demand for accommodating small vessels was noted and it is expected that this will continue in 2014.

Machine building

Metal cutting machinery

In the forth quarter of 2013 the volume of orders and sales remained at the same level as same period in 2012 and marked slight growth compared to 2012. This trend is due to deteriorating markets in the major Western European countries that are our major clients. Despite more positive tendencies in the economy and consumption as a whole at the end of 2013, it will obviously take some time before this trend manifest in the field of investment goods. Negative influence was exercised by the instable political environment in Africa and Ukraine, as well as the devaluation of some local currencies as the Turkish lira and the ruble. The market contraction in Western European countries as a result of the continuing economic crisis has focused the efforts of management in developing and expanding markets for our products to Eastern Europe and Latin America.

IHB Electric and hydro generators manufacturing and repair

In 2013, the product portfolio of IHB Electric did not undergo serious changes. It involved mainly improved design solutions for the manufacture of electric motors and separate units for hydro generators. In 2013, the major production share of IHB Electric included production of new hydro generators. In comparison, in 2012 there was a dominant share of electric generators. Projects for production of new and renovation of existing motors, both in Bulgaria and abroad were successfully completed. Revenues of IHB Electric for 2013 amounted to BGN 4.5 mln. Recorded decrease compared to 2012 is mainly in revenues from services and repair activities and is due to the lower investment activities in Bulgaria of the energy sector entities. Expectations in the short term are smooth increase in the volume of manufactured motors. IHB Electric conducts proactive marketing policy in Europe, Turkey, India, the former Yugoslav republics and works actively to enter foreign markets. As a result of these efforts in 2013 were delivered four hydro generators to Turkey, as at the end of the year contracts were signed for the delivery of four new hydro generators to Turkey. In early 2014 the Company signed a contract to manufacture, supply and supervise the installation of 3 hydro generators in Abkhazia.

Classification and certification

Once again 2013 was marked with the sign of global economic crisis and its negative consequences. In general the negative impact of the crisis headed to lasting effects on the market:

- Low levels of freight market;
- Decommissioning of a large number of ships;
- A severe curtaining of costs for repairs and maintenance of the ships in operation;
- increased competition between classification societies; intention of the more powerful classification societies to enter in the lower segments and as a result of increased variability due to ship owners - constant pressure to reduce prices of surveys performed.

Despite the difficulties number of global orders for new ship construction rose for the first time after many years. Development of innovation and new mandatory environmental standards are also expected to benefit European maritime industries - shipyards, equipment suppliers and last but not least classification societies.

Information on the financial instruments used and the assessment and management of financial risk is presented in Note 23 Financial Instruments in the Notes to the Separate Financial Statements.

Opportunities for realisation of the investment intentions, funds available and possible changes in the structure of the funding for the business

In 2013 IHB met its needs for securitization of its operating costs with own and borrowed funds. The own funds are a result of revenues from the main activity. In 2013 sources of revenues for IHB were interests on loans provided to subsidiaries, dividends received from subsidiaries and disposal of interests and rendering of services. Part of these funds was redirected by the Holding for funding of its investment program. In April 2013 the General Assembly of the shareholders took a decision for the issue of a new convertible bonds issue with a total issue value up to BGN 29,999,800. The funds from the issue will be used to repay the debenture loan from the previous issue of convertible bonds ISIN BG 2100018113, issued by Industrial Holding Bulgaria AD, partial refinancing of Diamond Sky ship, and expansion of KRZ Port Bourgas and other small projects of the subsidiaries.

The management of the Holding restructured the available cash resources with the realization of its mid-term investment intentions with respect to the occurring changes in the market environment. Projects which have already begun are funded with priority. The invested funds are own funds - a result of the development of the main activity of the Holding, and the resources raised from the upcoming issue of bonds. In case of deficit, the remaining funds required for implementation of the planned investment projects of the subsidiaries are provided through own funds of IHB /including a capital increase/, from the sale of assets, accepted deposits of free cash of subsidiaries, prepayments by clients or bank credits depending on the particular case.

On 8 February 2013 IHB stopped payment of cash from the sale of unexercised rights in relation to the capital increase from 2007 due to the expiry of the statute of limitation of the obligation to pay the amounts on 4 February 2013. The liability amounts to BGN 18,260 thousand (BGN 16,434 after taxation) and is reported in profit or loss for 2013.

IHB has a contract with DSK Bank for credit limit for issuance of bank guarantees, opening of letters of credit and working capital financing of the Holding and/or companies in its Group with up BGN 10 million and options for disbursement in BGN, EUR and USD.

As of 31.12.2013 the receivables of IHB amount to BGN 68,633 thousand, compared to BGN 61,192 thousand as of 31.12.2012. The main portion represents receivables from related parties under cash loans extended and services provided to the amount of BGN 67,470 thousand, of which 62,853 thousand – long-term and BGN 4,617 thousand – short-term. The remaining BGN 1,163 represent other receivables. The net assets of IHB as of 31.12.2013 amount to BGN 157,071 thousand and have increased by BGN 11,142 thousand or 7.63%.

The total liabilities of IHB as of 31.12.2013 amount to BGN 34,778 thousand as compared to BGN 43,412 thousand as of 31.12.2012. They represent mainly a BGN 30,313 thousand liability under a debenture loan and BGN 4,076 thousand payables to related parties.

3. Important events after the reporting date

The General Meeting of the shareholders of Maritime Holding AD, held on 20 February 2014, voted for dividend distribution in the amount of BGN 3.22 per share.

On 27.02.2014 it was voted dividend distribution from the subsidiary "Rekolta 2011" EAD of BGN 7 per share at the expense of realized profit in 2013 and part of the retained earnings from previous years.

At an extraordinary general assembly of the shareholders of ZMM Bulgaria Holding AD held on 28.02.2014 a dividend distribution of BGN 0,50 per share was voted.

On 18 February 2014 the General Shareholder Meeting of Agro Pari AD voted to discontinue the company's operations and to start a process of liquidation.

The General meeting of shareholders held on 5 March 2014 took the decision to incorporate IHB ship design AD. IHB subscribed for 100 % of the shares. The Company is registered in the Commercial Register at the Registry Agency on March 18, 2014.

In January 2014 in relation to the decision of the General Assembly of the shareholders for the redemption of shares the Management Board of Industrial Holding Bulgaria AD took a decision redeem 6,125 shares at average weighted price of BGN 0.840 per share. From the beginning of February until the date of publication of this report, there were no shares buyback transactions.

Other than disclosed above, no events have occurred after 31 December which might require additional adjustments and / or disclosures in the separate financial statements of the Company for the year ended 31 December 2013.

4. Important scientific research and development

IHB did not carry out R&D activities for the period covered by the historic financial information.

The companies in the Group of IHB carry out continuous R&D activities with regard to their products and technologies. The more important innovation efforts of the teams are directed towards improvement of the offered products and of individual processes of their manufacture through the use of state-of-the-art materials and technologies for their manufacture.

5. Planned future development of the Company

Main trends with regard to the activity of IHB

The main trends in the activity of IHB in the following years are expected to continue to be related to:
- Acquisition, assessment and sale of shares in other companies;
- Management of the companies in the portfolio;
- Establishment of new companies
- Investment in companies from the portfolio in which IHB has long-term interests;
- Funding of companies in which the Holding participates.

The key strategic interests of IHB are in the following industries and activities:
- maritime transport;
- shipbuilding and ship repairing;
- port activities;
- machine building

Plans of material importance related to the activity of IHB

The efforts of the management in 2014 continue to be focused on mitigating the negative impact of the global economic crisis on the subsidiaries.

In the following years new capital costs within the Group may be made in the cases of funding of new projects or development of already launched projects of IHB and of its subsidiaries, including in connection with the expansion of the port terminal in Bourgas and other new projects. If necessary, the Holding will continue to fund the development of the companies in the Group on an on-going basis.

Capital costs are also possible for new acquisitions and expansions of the business related to the development priorities of IHB.

Decisions about the size and sources of the necessary funds will be made for each case on an individual basis.

6. Changes in the price of the shares of the Company

In 2013 the price of the shares of IHB increased from BGN 0.700 to BGN 0.847 per share at the end of the year, or an increase of 21.00%. For comparison, the movement of the indices of BSE-Sofia for the same period are as follows: SOFIX increase of 42,28%, BG40 increase of 27,02%, and BGTR30 increase of 35,35%.
Shares were the most liquid on the BSE – Sofia throughout the year.
In 2013 data about trade with shares of IHB /ticker 4ID/ are as follows:
Statistics for the period 01.01.2013 – 31.12.2013 /information from BSA-Sofia /

	Value	Data
Last average weighted price (BGN)	0.847	30-12-2013
Maximum average weighted price (BGN)	0.977	
Minimum average weighted price (BGN)	0.641	
Average weighted price for 2013 (BGN)	0.779	
Percentage change on the basis of data for accounting purposes*	21.00%	
Number of transactions in 2013	1 016	
Traded volume in 2013 (number of shares)	3 096 221	
Turnover in 2013 (BGN)	2 410 971.29	

Shareholding structure as of 31.12.2013

The capital of IHB as of 31.12.2013 is BGN 67,978,543.

Shareholders	*Number of shareholders*	*Number of shareholders*	*As at 31.12.2013 Number of shareholders*
All	54796	67 978 543	100.00%
Legal persons	122	59 985 020	88.24%
Natural persons	54674	7 993 523	11.76%
Shareholders holding over 5%, inclusive	5	42 101 500	61.93%
Venside Enterprises Limited		20 399 604	30.01%
Bulls AD		9 537 921	14.03%
DZH AD		3 977 174	5.85%
ZUPF Allianz Bulgaria AD		4 646 278	6.83%
Stock tours AD		3 540 523	5.21%
Shareholders holding under 5%	54,791	25 877 043	38.07%

7. Data for the trade with the Company's bonds

On 3 June 2013 trade with corporate bonds issue of IHB – issue 2013 - started at the BSE-Sofia AD, bonds segment. The ticker is 4IDE. The issue amount is BGN 29 999 800 and the number of bonds is 299 998 each having nominal value of BGN 100.

The market lot is one lot equalling 10 bonds. The registered order price is expressed as a percentage of the nominal of one market lot /net price/ and the price of a bonds purchase and sale order excludes the interest accrued as of the last interest payment until the order registration. The listing price as at 03.06.2013 is 100 % of the nominal.

Cash settlement on the transaction is in Bulgarian levs.
Statistics for the period 01.06.2013 – 31.12.2013 /information from BSE-Sofia/

	Value	Date
Last average weighted price	BGN 1 028.863	30-12-2013
Maximum average weighted price *	100.500%	
Minimum average weighted price *	100.500%	
Average weighted price for 2013 *	100.500%	
Number of transactions in 2013	1	
Traded volume in 2013	5 lots**	
Turnover in 2013	BGN 5,144.32	

Net prices (% of the nominal value of the lot, i.e. % of BGN 1,000.00).
** 1 lot = 10 bonds

8. Data on ownership and trade in own shares /187e of the Commercial Act/

In relation to the decision of the General Assembly of the shareholders for the redemption of shares the Management Board of Industrial Holding Bulgaria AD made a decision that the shares which will be redeemed in 2013 will be up to 3% of the registered capital of the company, which at present is 67,978,543 shares, namely – up to 2,039,356 shares.

The investment intermediary chosen for the redemption of treasury shares is Allianz Bank Bulgaria AD.

The total number of treasury shares held as at 31.12.2013 is 967 141 shares (1.42%) at an average price per share of BGN 0.794.

9. Corporate governance

In October 2007 the National Corporate Governance Code was adopted.

On 26.10.2007 IHB signed a declaration accepting the National Corporate Governance Code and will carry out its activities in compliance with its provisions. The document was published by BSE.

Compliance with the Code uses the principle «comply or explain». Information about it is presented additionally as part of the Annual Financial Statements.

10. Data on the members of the Managing and Supervisory Boards

On 17 January 2013 by virtue of Decision No 20130117130929 of the Commercial Register a change in the Management Board of Industrial Holding Bulgaria AD was registered: Mr. Georgi Yanchev Momchilov was discharged at his request as member of the Management Board, as Executive Director and a person representing the company and Emiliyan Emilov Abadzhiev was elected as his replacement as member of the Management Board and Executive Director.

The Company is represented by Daneta Angelova Zheleva, Chief Executive Director and Emiliyan Emilov Abadzhiev – Executive Director – jointly and severally.

Information about participation in trade companies of members of the boards as at 31 December 2013 as unlimited partners holding more than 25% of the capital of another company as well as participation in the management of other companies or cooperatives as authorized signatory, managers or members of boards:

Supervisory Board
DZH AD

Data for the person who represents DZH AD in the Supervisory Board of the Company:

Elena Petkova Kircheva:

- does not participate as a partner with unlimited liability in any company;
- does not hold directly more than 25% of the votes in the general assembly of the shareholders of any trade company;
- is not a member of managing or supervisory board of anther;
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives.

Konstantin Kuzmov Zografov

- does not participate as a partner with unlimited liability in any company;
- does not hold directly more than 25% of the votes in the general assembly of the shareholders of any trade company;
- Member of:
    - The Board of Directors of Privat Engineering AD, Sofia;
    - The Board of Directors of KLVK AD, Sofia;
    - The Board of Directors of Bulgarian Ship Register AD, Varna;
    - The Board of Directors of Maritime Holding AD, Varna;
    - The Board of Directors of Bulyard AD, Sofia;
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives

Snezhana Ilieva Hristova

- does not participate as a partner with unlimited liability in any company;
- holds directly more than 25% of the votes in the general assembly of the shareholders:
    - Evropa 2007 OOD, Sofia,
    - Tuinsan EOOD, Sofia
    - Tuinsan Trading Limited, Cyprus
- Member of:
    - The Board of Directors of Insurance Company Allianz Bulgaria Life, Sofia;
    - The Board of Directors of Stadis AD, Sofia;
    - The Board of Directors of Aladis AD, Sofia;
    - The Board of Directors and Executive Director of Astsela AD, Sofia;
- Manager of:
    - Alhena AD, Sofia
    - Evropa 2007 OOD, Sofia,
    - Tuinsan EOOD, Sofia,
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives

Managing Board
Bozhidar Vasilev Danev - Chairperson

- does not participate as a partner with unlimited liability in any company;
- does not hold directly more than 25% of the votes in the general assembly of the shareholders of any trade company;
- Member of:
    - the Management Board and Executive Director of the Bulgarian Chamber of Commerce – Union of the Bulgarian Business
    - The Board of Directors of Solvay Sodi JSC, Devnya;
    - The Board of Directors of Deven AD, Devnya;
    - The Board of Directors of Provasol AD, Provadiya
    - The Board of Directors of Svobodna Zona – Ruse EAD;
    - The Board of Directors and Executive Director of Infralink AD, Sofia
    - The Board of Directors of Interlease AD, Sofia;
    - The Board of Directors of Inter Expo and Congress Center AD, Sofia
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives

Daneta Angelova Zheleva - Chief Executive Officer;

- does not participate as a partner with unlimited liability in any company;
- holds directly more than 25% of the votes in the general assembly of the shareholders of DZH AD, Sofia, registered in Sofia City Court under company case № 7659/1999;:
- Member of:
    - The Board of Directors of DZH AD, Sofia;
    - The Board of Directors of ZMM – Bulgaria Holding AD, Sofia;
    - The Board of Directors of KRZ Port Bourgas AD, Bourgas;
    - The Board of Directors of Privat Engineering AD, Sofia;
    - The Board of Directors of Stadis AD, Sofia;
    - The Board of Directors and Executive Director of Bulyard AD, Sofia;
    - The Board of Directors of Bulls AD, Sofia;
    - The Board of Directors of Odessoss PBM AD, Varna;
    - The Board of Directors of IHB Shipping Co EAD, Varna,
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives

Borislav Emilov Gavrilov

- does not participate as a partner with unlimited liability in any company;
- holds directly more than 25% of the votes in the general assembly of the shareholders:
    - Stock Consult OOD, Sofia,
    - Boblo EOOD, Sofia
    - Simetria OOD, Sofia
- Member of:
    - The Board of Directors of Stock EG AD, Malo Buchino;
    - The Board of Directors of IHB Electric AD, Sofia;
    - The Board of Directors of KLVK AD, Sofia;
    - The Board of Directors of Machstroy AD, Troyan (in liquidation);
    - The Board of Directors of Maritime Holding AD, Varna;
- Manager of:
    - Bulgarian Lloyd EOOD, Varna;
    - Stock Consult OOD, Sofia,

- Eko Consulting OOD, Sofia,
- Boblo EOOD, Sofia,
- Simetria OOD, Sofia

- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives.

Emilyan Emilov Abadgiev – Executive Director

- does not participate as a partner with unlimited liability in any company;
- holds directly more than 25% of the votes in the general assembly of the shareholders:
  - Comerce Consulting EEA OOD Sofia
- Member of:
  - The Board of Directors and Executive Director of ZMM Bulgaria Holding AD;
  - The Board of Directors of ZMM Nova Zagora AD;
  - The Board of Directors of Leyarmach AD;
  - The Board of Directors of ZMM Sliven;
  - The Board of Directors of IHB Elektric AD, Sofia;
- Manager of:
  - Comerce Consulting EEA OOD;
  - Water Synergy OOD;
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives.

Boyko Nikolov Noev

- does not participate as a partner with unlimited liability in any company;
- does not hold directly more than 25% of the votes in the general assembly of the shareholders of any trade company;
- Member of:
  - - The Supervisory Board of OTK AD, Kardzhali
  - - The Board of Directors of Intertrust Holding BG EAD, Sofia;
- is not an authorized signatory for any trade company;
- does not participate in the management of cooperatives.

Contracts under article 240b of the Commercial Act signed during the year.

The company has not signed contracts with members of the Board of Directors or parties related to them, which go beyond its usual activities or substantially deviate from the market conditions.

Remunerations paid to the members of the Managing and Supervisory Boards

In connection with Ordinance № 48 of the Financial Supervision Commission as of 20 March 2013 on the requirements for remuneration, on a meeting held on 15.08.2013 the Supervisory Board adopted the remuneration policy of "Industrial Holding Bulgaria", approved on the General Meeting of Shareholders on September 30, 2013. Pursuant to the policy members of the Supervisory Board receive only constant (fixed) remuneration to be determined by the General Meeting of Shareholders on the proposal of the Supervisory Board.

	Remunerations received for 2013	
	From IHB	**From IHB subsidiaries**
Members of the Supervisory Board		
DZH AD, through representative Elena Petkova Kircheva	12 000	-
Snezhana Hristova	18 000	-
Konstantin Zografov	12 000	67 200
Members of the Managing Board		
Bozhidar Danev	12 000	-
Daneta Zheleva	45 960	229 296
Emilyan Abadjiev	31 200	99 623
Borislav Gavrilov	12 000	7 500
Boyko Noev	12 000	-
George Momchilov – Released with a decision of the Supervisory Board as of 07/01/2013, entered in the Commercial Register at the Registry Ageney on 17.01.2013	1300	11 881

The remunerations received by the members of the Management and Supervisory Boards of IHB include amounts received as remuneration. The members of the Boards have not received non-cash remunerations, conditional or deferred remunerations. IHB or its subsidiaries does not owe to the members of the Boards any amounts for payment of pensions, benefits upon retirement or any other similar benefits.

In 2013 the total amount of the social security contributions paid by IHB to the members of the Management and Supervisory Boards, including mandatory pension insurance is BGN 5,154.

IHB or its subsidiaries does not deduct and do not charge any amounts for payment of pensions, other benefits upon retirement or any other similar benefits.

Information about IHB shares held by members of the Managing and Supervisory Boards as of 31 December 2013:

	Acquired in 2013	Transferred in 2013	Number of shares held directly	Number of shares held through related parties	Total directly and through related parties	% of the votes in GM of the shareholders directly and through related parties
Members of the Supervisory Board						
DZH AD	0	0	3 977 174	0	3 977 174	5.85%
Snezhana Hristova	0	0	2 056	1 343 610	1 345 666	1.98 %
Konstantin Zografov	0	0	582	208	790	0.002%
Members of the Management Board						
Bozhidar Danev	0	0	208	0	208	0.0006%
Daneta Zheleva	0	0	41 044	3 977 820	4 018 864	5.91%
Emilyan Abadgiev	0	0	0	0	0	0
Borislav Gavrilov	0	0	208	624	832	0.002%
Boyko Noev	0	0	0	0		0

As of 31.12.2013 the members of the Management and Supervisory Boards have not been provided with options on securities of IHB.

11. Information on pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables of IHB amounting to at least 10% of its equity.
n/a.

12. Management responsibilities

The management is required by Bulgarian legislation to prepare separate financial statements for each financial year that give a true and fair view of the financial position of the Company as at the year end and of its financial performance and its cash flows for the year ended.

The management confirms that appropriate accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been used in the preparation of the annual separate financial statements for the year ended 31 December 2013.

The management also confirms that all applicable accounting standards have been followed and that the separate financial statements have been prepared on a going concern basis.

The management is responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

13. Data for the Investor Relations Director.
The Investment Relations Director is Vladislava Raykova Petrova-Sgureva, tel. 980 71 01, e-mail: ir@bulgariaholding.com, 37A Frityov Nansen Str, floor 7, Sofia.

Daneta Zheleva

Chief Executive Director

Building a better working world

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1124 Sofia, Bulgaria

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Fax: +359 2 81 77 111
ey.com

Independent auditors' report

To the shareholders of Industrial Holding Bulgaria AD

Report on the separate financial statements

We have audited the accompanying separate financial statements of Industrial Holding Bulgaria AD (the Company), which comprise the separate statement of financial position as of 31 December 2013, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

Management is responsible for the preparation and presentation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted for use in the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Industrial Holding Bulgaria AD as of 31 December 2013, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.

Report on other legal requirements

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4, we read the Annual Management Report accompanying the separate financial statements for the year ended 31 December 2013.

In our opinion, the information given in the Annual Management Report is consistent with the accompanying annual separate financial statements as of 31 December 2013.

Nikolay Garnev
Managing Partner
Ernst & Young Audit OOD

Daniela Petkova, CPA
Registered Auditor

28 March 2014
Sofia, Bulgaria

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

In thousands of BGN	Notes	2013	2012
Income from interest, dividends and investment activities	5	8,368	22,303
Other operating income	6	18,302	134
		26,670	**22,437**
Personnel expenses	7	(584)	(536)
Expenses on hired services		(393)	(498)
Other operating expenses	8	(9,695)	(12,321)
Net income from operations		**15,998**	**9,082**
Finance costs	9	(2,252)	(1,854)
Profit before tax		**13,746**	**7,228**
Income tax expense	10	(1,824)	(1,314)
Profit for the year		**11,922**	**5,914**
Earnings per share			
Basic earnings per share (in BGN)	17 (a)	0.176	0.087
Dilluted earnings per share (in BGN)	17 (a)	0.149	0.096
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial losses on defined benefit plans		(10)	-
Income tax effect		1	-
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods		**(9)**	**-**
Other comprehensive income / (loss) for the year, net of tax		**(9)**	**-**
Total comprehensive income for the year, net of tax		**11,913**	**5,914**

Financial statements
on which our auditors' report was
issued dated:

EY 28-03-2014

Ernst & Young Audit OOD

EY Representative:............ Registred auditor:............

The notes on pages 7 to 48 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 26 March 2014.

Daneta Zheleva
Chief Executive Director

Toshka Vassileva
Chief accountant

Translation in English of the official separate financial statements issued in Bulgarian.

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF FINANCIAL POSITION
As of 31 December 2013

In thousands of BGN	Notes	2013	2012
ASSETS			
Non-current assets			
Tangible and intangible non-current assets	11	324	365
Investments in subsidiaries	12	121,200	124,143
Investments in associates	13	1,584	1,584
Other long-term receivables	14	1,150	1,275
Loans granted to related parties	21	62,853	57,497
Deferred tax assets	10	1	-
Total non-current assets		**187,112**	**184,864**
Current assets			
Inventories		3	3
Related party receivables	21	654	74
Loans granted to related parties	21	3,963	2,104
Other receivables	15	13	242
Cash and cash equivalents	16	104	2,054
Total current assets		**4,737**	**4,477**
TOTAL ASSETS		**191,849**	**189,341**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	67,978	67,978
Share premium	17	30,604	30,604
Treasury shares	17	(771)	-
Legal and other reserves	17	7,989	7,398
Retained earnings		51,271	39,949
Total equity		**157,071**	**145,929**
Non-current Liabilities			
Debenture loan	18	29,912	-
Retirement benefit liability	19	19	6
		29,931	**6**
Current liabilities			
Debenture loan	18	401	21,946
Trade and other payables	20	99	18,401
Related party payables	21	4,076	2,120
Income tax payable		271	939
Total current liabilities		**4,847**	**43,406**
Total liabilities		**34,778**	**43,412**
TOTAL EQUITY AND LIABILITIES		**191,849**	**189,341**

The notes on pages 7 to 48 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 26 March 2014.

Daneta Zheleva
Chief Executive Director

Toshka Vassileva
Chief accountant

Translation in English of the official separate financial statements issued in Bulgarian.

Financial statements on which our auditors' report was issued dated:
EY 28-03-2014
Ernst & Young Audit OOD
EY Representative: .... Registred auditor: ....

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

In thousands of BGN	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of shares and other receivables		226	14,791
Dividends received		4,009	6,254
Granted loans repaid		2,803	20,804
Interest received		283	587
Payments for acquisition of stocks and shares		(6,182)	(32,497)
Loans granted		(6,623)	(5,606)
Salaries and remunerations		(556)	(522)
Foreign exchange losses		(3)	-
Income tax paid		(2,492)	(492)
Cash flows from unexercised rights of shareholders		(22)	(252)
Payments to suppliers and other payments		(563)	(601)
Net cash flow (used in) / from operating activity		**(9,120)**	**2,466**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible non-current assets		(129)	(290)
Sale of tangible non-current assets		-	4
Net cash used in investing activities		**(129)**	**(286)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Acqiusition of treasury shares	17	(771)	-
Proceeds from convertible bonds	18	30,000	-
Repayment of convertible bonds		(21,714)	-
Convertible bonds interest and fees paid		(2,024)	(1,739)
Loans and deposits received		3,290	1,850
Repaid loans and interest		(106)	(44)
Repayment of deposits and other payables		(1,376)	(247)
Net cash flows from / (used in) financing activities		**7,299**	**(180)**
(Decrease) / increase in cash and cash equivalents		(1,950)	2,000
Cash and cash equivalents at 1 January		2,054	54
Cash and cash equivalents at 31 December	16	**104**	**2,054**

Financial statements
on which our auditors' report was
issued dated:

EY 28-03-2014

Ernst & Young Audit OOD

EY Representative:........ Registred auditor:........

The notes on pages 7 to 48 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 26 March 2014.

Daneta Zheleva
Chief Executive Director

Toshka Vassileva
Chief accountant

Translation in English of the official separate financial statements issued in Bulgarian.

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

In thousands of BGN	Notes	Share capital	Share premium	Treasury shares	Legal and other reserves	Retained earnings	Total equity
Balance at 1 January 2012		67,978	30,604	-	6,801	34,632	140,015
Total comprehensive income for the year							
Profit for the year		-	-	-	-	5,914	5,914
Other comprehensive income for the year		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	5,914	5,914
Transactions with owners reported in equity							
Transfer from retained earnings to reserves		-	-	-	597	(597)	-
Total transactions with owners		-	-	-	597	(597)	-
Balance at 31 December 2012	17	67,978	30,604	-	7,398	39,949	145,929
Balance at 1 January 2013		67,978	30,604	-	7,398	39,949	145,929
Total comprehensive income for the period							
Profit for the year		-	-	-	-	11,922	11,922
Other comprehensive income for the year		-	-	-	-	(9)	(9)
Total comprehensive income for the year		-	-	-	-	11,913	11,913
Transactions with owners reported in equity							
Transfer from retained earnings to reserves		-	-	-	591	(591)	-
Treasury shares purchase (Note 17)		-	-	(771)	-	-	(771)
Total transactions with owners		-	-	(771)	591	(591)	(771)
Balance at 31 December 2013	17	67,978	30,604	(771)	7,989	51,271	157,071

The notes on pages 7 to 48 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 26 March 2014.

Daneta Zheleva
Chief Executive Director

Toshka Vassileva
Chief accountant

Financial statements on which our auditors' report was issued dated:
EY 28-03-2014
Ernst & Young Audit OOD
EY Representative .... Registred auditor..........

Translation in English of the official separate financial statements issued in Bulgarian.

1. Corporate information

The separate financial statements of Industrial Holding Bulgaria AD (the Company or the Holding or IHB AD) for the year ended 31 December 2013 were authorised for issue with a resolution of the Management and the Supervisory Board dated 26 March 2014.

Industrial Holding Bulgaria AD is a joint stock company, registered in Republic of Bulgaria incorporated under No 13081 from 1996 with headquarters and registered office: Sofia, 42 Damian Gruev Str. The financial year of the Company ends on 31 December.

Initially the Company has been established as a Privatisation Fund according to the Privatisation Funds Act under the name Privatisation Fund Bulgaria AD.

The General shareholders meeting held on 27.02.1998 decided to reorganize the activities of the Privatization Fund Bulgaria AD into a holding company and changed its name from Privatization Fund Bulgaria AD to Industrial Holding Bulgaria AD. The Company's registered capital amounts to BGN 67,978,543. It has two-tier management system comprising Supervisory and Management Boards.

The Company's activities include acquisition, management, assessment and sale of shares in Bulgarian and foreign entities, acquisition, assessment and sale of patents, re-letting of licenses to use patents to the companies in which the Holding participates, financing of its subsidiaries and associates, as well all other activities not prohibited by the Law.

The Company's activity is not limited by an expiry date or any other termination condition.

The Company is registered in the United State Register BULSTAT under identification number BG 121631219, as well in the State Social Security system. It is registered under the Value Added Tax Act. Company's shares are traded on the Bulgarian Stock Exchange, Sofia.

2.1 Basis of preparation

These separate financial statements have been prepared on historical cost basis.

The separate financial statements are presented in Bulgarian Leva (BGN) and all values are rounded to the nearest thousand (BGN thousand or BGN '000) except when otherwise indicated.

Statement of compliance

The financial statements of Industrial Holding Bulgaria AD have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union (EU).

These financial statements are the separate financial statements of Industrial Holding Bulgaria AD, where the investments in subsidiaries and associates have been presented at cost.

In accordance with the requirements of IAS 27 Consolidated and Separate Financial Statements and the Accountancy Act, Industrial Holding Bulgaria AD also prepares and presents consolidated financial statements. The consolidated financial statements of Industrial Holding Bulgaria AD for the year ended 31.12.2013 will be issued by 30 April 2014.

2.2 Summary of significant accounting policies

a) Foreign currency transactions

These financial statements are presented in BGN, which is also the Company's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date by the Bulgarian National Bank. All differences are taken to profit or loss for the period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions (purchase). Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services
Revenue from the rendering of services is recognised by reference to the stage of completion. Stage of completion is measured by reference to expenses incurred to date as a percentage of total estimated expenses for rendering of the service. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Interest income
Interest income is recognized using the effective interest rate (EIR), which is the rate that discounts exactly the estimated future cash flows over the estimated useful life of the financial instrument or a shorter period, where appropriate, to the carrying amount of the financial asset. Interest income is included in income from interest, dividends and investment activities in the statement of comprehensive income.

Dividends
Revenue is recognized when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

2.2. Summary of significant accounting policies (continued)

c) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the country where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business eombination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deduetible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

2.2. Summary of significant accounting policies (continued)

c) Taxes (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expeeted to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT) except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Retirement benefits

Short-term employee benefits include salarics, annual bonuses, social security contributions and paid annual leave of current emplyees expected to be settled wholly within twelve months after the end of the reporting period. They are recognised as an employee benefit expense in the profit or loss or included in the cost of an asset when service is rendered to the Company and measured at the undiscounted amount of the expected cost of the benefit. Information on short-term employee benefits is disclosed in Note 19.

Other long-term employee benefits comprise accumulating paid annual leave that the Company does not expect to settle wholly before the end of the following reporting period. They are recognised as an employee benefit expense in the profit or loss or included in the cost of an asset when the employees render service that increases their entitlement to future paid leave. Long-term paid annual leave is measured at the present value of the expected cost to be paid as a result of the unused entitlement accumulated at the end of the reporting period and reflects expected timing of settlement, expected salary level and reporting period-end market yield on government bonds.

The Company operates defined benefit plan arising from the requirement of the Bulgarian labour legislation to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the Company for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. These retirement benefits are unfunded. The cost of providing benefits under the retirement benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognises restructuring-related costs.

2.2. Summary of significant accounting policies (continued)

d) Retirement benefits (continued)

Interest expense is calculated by applying the discount rate to the defined benefit liability. The changes in the last (Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine and interest expenses) are recognized in the profit or loss for the period settlements within "Personnel expense".

e) Financial instruments - initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets upon initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
The subsequent measurement of the financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in the income from interest, dividends and investment activities in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.2. Summary of significant accounting policies (continued)

e) Financial instruments - initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The carrying amount of the asset is reduced directly and the amount of the loss is recognised in the income statement.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of income from interest, dividends and investment activities in the statement of comprehensive income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the statement of comprehensive income for the period.

2.2. Summary of significant accounting policies (continued)

e) Financial instruments - initial recognition and subsequent measurement (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and debenture loans.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings
After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses relating to loans and borrowings are recognised in the statement of comprehensive income for the period when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discounts or premiums on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of comprehensive income.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

f) Investment in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost in the separate financial statements of the Company, less any allowance for impairment (in accordance with IAS 27, paragraph 37 (a)). Investments in subsidiaries and associates are derecognized and the net result (received consideration less carrying amount of the investment) is recognized in profit or loss for the period, when the Company loses control or significant influence over the subsidiary or associate. For more details see Note 12 and Note 13.

If there is objective evidence that an impairment loss has occurred in relation to unquoted financial instruments not carried at fair value, since the latter cannot be determined reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial assets and the amount that is expected to be recovered from this financial asset, if it can be determined reliably. Impairment losses are recognised in the profit or loss for the period.

g) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.2. Summary of significant accounting policies (continued)

h) Fair value measurement

The Company does not report any financial instruments, such as, derivatives and available for sale financial assets, as well as non-financial assets such as investment properties and property, plant and equipment, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, and significant liabilities. Involvement of valuation experts is decided npon annually by the management. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

2.2. Summary of significant accounting policies (continued)

h) Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in eonjunction with the valuation experts, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

i) Share capital

The share capital represents the par value of the shares issued and paid. The difference between the par value and the price paid for the shares is accounted for as share premium. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

j) Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at fair value of the consideration transferred and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the nominal amount and the fair value of the consideration transferred, if reissued, is recognised as decrease/increase in share premium. No dividends are allocated to voting shares related to treasury shares.

k) Convertible debentures

Convertible debentures are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised as equity instrument. The conversion option recognized as equity instrument is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

2.2. Summary of significant accounting policies (continued)

l) Plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Vehicles (cars)	5 years
Computers and computer equipment	2 - 5 years
Fixtures and fittings and others	6 - 10 years

An item of plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

n) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The estimated useful lives for the current and comparative years are as follows:

Patents and trademarks	4 - 7 years
Software	4 - 7 years

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

2.2. Summary of significant accounting policies (continued)

o) Impairment of non-financial assets

The Company assesses at each reporting date whether there are indications that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amouut is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing an asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less the costs to sell is determined on the basis of recent market transactions, if any. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or available fair value indicators for the fair value of an asset or a cash generating unit.

The calculations of the impairment are based on detailed budgets and forecast calculations that are prepared separately for each CGU whereto individual assets have been allocated. These budgets and forecast calculations usually cover a term of five years. For longer periods, a long-term growth index is calculates and applied to future cash flows after the fifth year.

Impairment losses are recognised in profit or loss as other operating expenses, or as a separate line item, when significant.

An assessment is made by the Company at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss for the period.

p) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

2.2. Summary of significant accounting policies (continued)

q) Provisions

General
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying ecouomic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

r) Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bond) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted as of 1 January 2013:

- IAS 1 *Presentation of Financial Statements (Amendment) - Presentation of Items of Other Comprehensive Income*
- IAS 19 *Employee Benefits (Revised)*
- IFRS 1 *Government Loans – Amendments to IFRS 1*
- IFRS 7 *Financial Instruments: Disclosures (Amendment) - Offsetting Financial Assets and Financial Liabilities*
- IFRS *13 Fair Value Measurement*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- Improvements to IFRS – 2009 – 2011 Cycle

When adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

IAS 1 *Presentation of Financial Statements (Amendment) - Presentation of Items of Other Comprehensive Income*
The amendments to IAS 1 require grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time are presented separately from items that will not be reclassified by introducing two sub-headings "Other comprehensive income to be reclassified to profit or loss in subsequent periods" and "Other comprehensive income not to be reelassified to profit or loss in subsequent periods" in the statement of other comprehensive income. The amendments affect presentation only and have no impact on the Company's financial position or performance.

2.3 Changes in accounting policy and disclosures (continued)

IAS 1 ***Clarification of the requirement for comparative information (Amendment as part of Improvements to IFRS – 2009 – 2011 Cycle)***

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Company's financial position or performance.

IAS 19 ***Employee Benefits (Revised)***

The key changes of IAS 19 (Revised) that have impaeted the Company include the following:

- Actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Previously, the Company recognized actuarial gains and losses in the profit or loss immediately.
- All past service costs are recognised at the earlier of when the amendment/curtailment occurs or when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period.

IAS 19 (Revised) also introduces more extensive disclosures. These have been provided in Note 19.

IFRS 13 ***Fair Value Measurement***

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Other new and amended standards and interpretations

The following amendments to standards do not have any effect on the Company's financial position and /or performance:

- IFRS 1 *Government Loans – Amendments to IFRS 1*
- IFRS 7 *Financial Instruments: Disclosures (Amendment) - Offsetting Financial Assets and Financial Liabilities*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- Improvements to IFRS – 2009 – 2011 Cycle (other than IAS 1 Clarification to the requirement for comparative information (Amendment) described above)

3. Significant accounting judgments, estimates, and assumptions

The preparation of the Company's separate financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Impairment testing
Considering how the Industrial Holding Bulgaria AD Group's investments are managed and reported, the management has identified cash generating units (CGUs) representing Company's subsidiaries for the purpose of impairment testing. The recoverable amount of the CGUs has been determined using value in use calculation based on cash flow projections reflecting the specifics of the business sectors/ industries, in which the CGUs are operating and the management's latest estimates on the expected performance over the respective period. Further details are provided in Note 12.

Going Concern
In 2013 the Company issued a new convertible bond with a total nominal value of BGN 30,000 thousand. The public offering of the new issue was successfully completed with 299,998 units with a nominal value of BGN 100 each subscribed and paid out of the total offered for subscription 300,000 units. Part of the proceeds from the issue of the new convertible bond were used to repay the old bond issue in the amount of BGN 21,714 thousand and interest due as at the old bond repayment date. The new bond in the amount of BGN 29,912 thousand has been classified as long-term. The management believes considering the fact that the Company has fulfilled all its obligations related to the timely repayment of the existing debenture loan; and the fact that bondholders are regularly updated with the key business developments and circumstances, the fulfilment of its bond obligations is not in any doubt and that the bondholders will continue to support and commit funds to the Company.

As at 31 December 2012, in the Company's statement of financial position are included current liabilities of BGN 18,342 thousand for sold rights to the existing shareholders, and BGN 18,260 thousand are a result of the share capital increase during 2007. These payables for sold rights of shareholders were derecognised in the profit and loss in the first quarter of 2013, following the expiration of the legally prescribed period of the liability and the fact that they will not be settled through cash outflows. Further information is given in Note 20.

Considering the above and in view of the Company's future development the management concluded that the going concern assumption is appropriate for the preparation of these separate financial statements.

4. Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to have an impact on disclosures, finaucial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

IAS 19 ***Defined Benefit Plans: Employee Contributions – Amendment to IAS 19***
The narrow-scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 January 2014. They have not yet been adopted for use in the EU. It is not expected that these amendments would be relevant to the Company.

IAS 27 ***Separate Financial Statements (Revised)***
The revised standard, as adopted for use in the EU, is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements The Company does not expect that the effects of this Standard will have an impact on the financial position or performance presented in the separate financial statements.

IAS 28 ***Investments in Associates and Joint Ventures (Revised)***
The revised standard, as adopted for use in the EU, is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Company is in the process of assessing the impact of this Standard on its financial position or performance.

IAS 32 ***Financial Instruments (Amendment): Presentation*** **- Offsetting Financial assets and Financial Liabilities**
The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems. The Company is in the process of assessing the impact of the amendment on its financial position or performance.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective for annual periods beginning on or after 1 January 2014. It is not expected that these amendments would result in additional disclosures for the Company.

4. Standards issued but not yet effective and not early adopted (continued)

IAS 39 ***Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39***
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. It is not expected that these amendments would be relevant to the Company.

IFRS 9 ***Financial Instruments: Classification and Measurement***
The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. Phase I of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FV option. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company is in the process of assessing the impact of the new standard on its financial position or performance. The Standard has not yet been adopted for use in the EU.

IFRS 10 ***Consolidated Financial Statements***
The new standard, as adopted for use in the EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Company is in the process of assessing the impact of the new standard on its financial position or performance.

IFRS 11 ***Joint Arrangements***
The new standard, as adopted for use in the EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories – joint operation and joint venture. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed. As the Company does not report any joint ventures the new standard will not have an impact on its financial position or performance.

IFRS 12 ***Disclosure of Interests in Other Entities***
The new standard, as adopted for use in the EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 12 includes all the disclosure requirements that were previously in IAS 27 related to consolidated financial statements, as well as all the disclosures that were previously included in IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities. A number of new and more extensive qualitative and quantitative disclosures are also required. The Company is in the process of assessing the impact of the new standard on its financial position or performance.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.

4. Standards issued but not yet effective and not early adopted (continued)

IFRIC Interpretation 21 *Levies (IFRIC 21)*
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. It has not yet been adopted for use in the EU. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

Annual improvements to IFRSs 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued amendments to seven standards which are applicable for financial year 2015. Summary of amendments and related standards are provided below:

- IFRS 2 Share-based Payments – amended definitions of 'vesting condiitons' and 'market condition' and adding the definitions of 'performance condition' and 'service condition';
- IFRS 3 Business Combinations – clarification on the accounting for contingent consideration arising from business combination;
- IFRS 8 Operating Segments – additional disclosures of management judgement on aggregating operating segments and clarification on reconciliation of total segments' assets to the entity's assets;
- IFRS 13 Fair Value Measurement – clarification on interaction with IFRS 9 as regards short-term receivables and payables;
- IAS 16 Property, Plant and Equipment – amended to state that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount while the accumulated depreciation is calculated as a difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;
- IAS 24 Related Party Disclosures – clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party; disclosure of the service fee paid or payable is required;
- IAS 38 Intangible Assets – same amendment as IAS 16 above.

The Company is in the process of assessing the impact of the amendments on its financial statements. The Improvements to IFRS – 2010 – 2012 Cycle have not yet been adopted for use in the EU yet.

Annual improvements to IFRSs 2011-2013 Cycle
In the 2011-2013 annual improvements cycle, the IASB issued amendments to four standards which are applicable for financial year 2015. Summary of amendments and related standards are provided below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards –clarification on the early application of new IFRS that is not yet mandatory;
- IFRS 3 Business Combinations – clarification on scope exclusions regarding the formation of joint arrangement in the financial statements of the joint arrangement itself;
- IFRS 13 Fair Value Measurement – clarification on the application of portfolio exception (measuring fair value of a group of financial assets and financial liabilities on a net basis;
- IAS 40 Investment Property – clarification on the interrelationship between IFRS 3 and IAS 40.

The Company is in the process of assessing the impact of the amendments on its financial statements. The Improvements to IFRS – 2011 – 2013 Cycle have not yet been adopted for use in the EU yet.

4. Standards issued but not yet effective and not early adopted (continued)

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2014. The IASB issued amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether eontrol exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* to provide transition relief. The company is in process of assessing the impact of the new standard on its financial position or performance.

IFRS 14 *Regulatory Deferral Accounts*

The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. This standard has not yet been endorsed by the EU. The new standard will not have an impact on Company's financial position or performance.

5. Income from interest, dividends and investment activities

In thousands of BGN	**2013**	**2012**
Net gains from investment activities	-	12,088
Dividend income	4,633	6,254
Interest income	3,735	3,961
	8,368	**22,303**

The reported dividend income of BGN 4,633 thousand (2012: BGN 6,254 thousand) comprises dividends distributed by Maritime Holding AD - BGN 598 thousand (2012: BGN 486 thousand); by ZMM Bulgaria Holding AD - BGN 3,411 thousand (2012: BGN 5,648 thousand); by KRZ Port Bourgas AD – BGN 624 thousand (2012: nil), and by Odesos PBM AD – nil (2012: BGN 120 thousand).

Interest income relates to interest-bearing loan receivables from subsidiaries at the amount of BGN 3,679 thousand (2012: BGN 3,916 thousand), accrued interest income relating to commercial contracts of BGN 55 thousand (2012: BGN 44 thousand) and interests on deposit and current bank accounts at the amount of BGN 1 thousand (2012: BGN 1 thousand). During 2012 BGN 5,690 thousand accrued interest balance related to granted loan to related party was converted into loan principle.

The net gains from investment activities in 2012 arise from the sale of shares owned by Industrial Holding Bulgaria AD in Avgusta Mebel AD (subsidiary). The sales price of the shares is BGN 1,500 thousand (EUR 767 thousand). During 2012, Industrial Holding Bulgaria AD also disposed its interest in Dunav Turs AD (associate company) for BGN 14,180 thousand (EUR 7,250 thousand).

6. Other operating income

In thousands of BGN	**2013**	**2012**
Derecognised liabilities on shareholders' rights sold (Note 20)	18,260	-
Compensations and guarantees received	-	72
Revenue from services rendered	41	59
Other income	1	3
	18,302	**134**

The liabilities on rights sold to shareholders resulted from the increase in share capital in 2007. These shareholders have not exercised their rights to subscribe for shares in the capital increase and as a result, the unexercised rights were sold on an official auction at the Bulgarian Stock Exchange – Sofia. Industrial Holding Bulgaria AD received the proceeds from the sale in January 2008 and began to pay amounts to the holders of unexercised rights on 4 February 2008. In February 2013 Industrial Holding Bulgaria AD discontinued the payments of money from the sale of unexercised rights in connection with the capital increase in 2007 due to expiration of the period of the obligation to pay the amounts on 4 February 2013. These obligations are derecognised in the profit or loss in the current period.

Revenue from services rendered relates to fees for financial security provided to Group companies. The other income arises from the sale of office equipment.

7. Personnel expenses

In thousands of BGN	2013	2012
Salaries	(527)	(486)
Social security expenses and other social payments	(57)	(50)
	(584)	(536)

8. Other operating expenses

In thousands of BGN	2013	2012
Impairment of investments (Note 12)	(9,125)	(12,161)
Depreciation and amortization (Note 11)	(121)	(57)
Expenses for materials	(50)	(26)
Other operating expenses	(399)	(77)
	(9,695)	(12,321)

The higher depreciation, amortization and materials expenses compared to those reported in the previous year are a result of the company moving into a new office. The increase in other expenses is mainly due to receivables of BGN 74 thousand related to the terminated project in the field of renewable energy sources being written off as the project was discontinued. Further, the initially agreed price for the sale of shares of Augusta Mebel AD was reduced by 200 thousand (Note 14).

9. Finance costs

In thousands of BGN	2013	2012
Debenture loan interest expenses (ISIN code BG 2100018113 and ISIN code BG 2100006134)	(1,933)	(1,737)
Interest expenses on deposits and loans from related parties	(144)	(51)
Foreign exchange losses	(2)	(1)
Other finance expenses, related to debenture loans	(173)	(65)
Finance costs	(2,252)	(1,854)

The increase in other finance expenses is mainly a result of the recognition of the balance of unamortized costs of BGN 122 thousand related the issuance of bond with ISIN code BG 2100018113 due to altered maturity and early repayment of the bond.

10. Income tax expense

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

In thousands of BGN	2013	2012
Current tax expense	(1,824)	(1,314)
Deferred tax, relating to origination and reversal of temporary differences	-	-
Income tax expense reported in profit or loss	(1,824)	(1,314)

Current tax expense comprises income tax accrued at 10% for 2013 (2012: 10%). In 2014, the applicable tax rate remains unchanged.

10. Income tax expense (continued)

A reconciliation between tax expense and the accounting profit multiplied by the Company's tax rate for the years ended 31 December 2013 and 2012 is as follows:

In thousands of BGN	2013	2012
Profit before tax	**13,746**	**7,228**
Income tax at the Company's statutory tax rate of 10% for 2013 (2012: 10%)	(1,375)	(723)
Impairment of investment in subsidiary, for which no deferred tax asset is recognised	(912)	(1,216)
Dividend revenue exempted from tax	463	625
Income tax expense at an effective tax rate of 13.27% (2012: 18.18%)	**(1,824)**	**(1,314)**

As at 31 December 2013, the Company reports deferred tax asset in the amount of BGN 1 thousand (2012: nil) related to retirement benefits liability. The income from deferred taxes on the retirement benefits liability is recognized in other comprehensive income. The Company does not have any tax losses carried forward.

11. Tangible and intangible non-current assets

In thousands of BGN	Computers and equipment	Vehicles	Fixtures and fittings and others	Assets under construction	Total
Cost					
Balance at 1 January 2012	70	182	58	125	**435**
Additions	27	-	1	414	**442**
Disposals	-	-	-	(242)	**(242)**
Transfers to intangibles	-	-	-	(61)	**(61)**
Balance at 31 December 2012	**97**	**182**	**59**	**236**	**574**
Balance at 1 January 2013	97	182	59	236	**574**
Additions	3	-	9	66	**78**
Transfers	15	-	287	(302)	**-**
Transfers to intangibles	-	-	61	-	**61**
Balance at 31 December 2013	**115**	**182**	**416**	**-**	**713**
Depreciation and impairment losses					
Balance at 1 January 2012	62	98	55	-	**215**
Depreciation for the year	13	42	2	-	**57**
Balance at 31 December 2012	**75**	**140**	**57**	**-**	**272**
Balance at 1 January 2013	75	140	57	-	**272**
Depreciation for the year	15	36	68	-	**119**
Balance at 31 December 2013	**90**	**176**	**125**	**-**	**391**
Carrying amounts					
Balance at 1 January 2012	**8**	**84**	**3**	**125**	**220**
Balance at 31 December 2012	**22**	**42**	**2**	**236**	**302**
Balance at 31 December 2013	**25**	**6**	**291**	**-**	**322**

11. Tangible and intangible non-current assets (continued)

The Company has no imposed restriction regarding the ownership rights of its tangible non-current assets and no assets have been pledged as a security for liabilities or other commitments.

The increase in the other tangible assets is related to improvements made to a newly rented office premises. The Company moved in the new office in the beginning of 2013.

Intangible assets

The intangible assets of the Company are insignificant; therefore, a detailed note for their movement during the year has not been prepared. The carrying amount of the intangible assets as at 31 December 2013 is BGN 2 thousand (2012: BGN 63 thousand). The accrued amortization for the year ended 31 December 2013 is BGN 2 thousand (2012: less than BGN 1 thousand).

Impairment of tangible and intangible non-current assets
Based on the review of the impairment indicators related to tangible and intangible non-current assets, the management of the Company has not identified indicators of impairment showing that the carrying amount of the assets is above their recoverable amount.

12. Investments in subsidiaries

The Company has the following investments in subsidiaries at 31 December 2013 and 31 December 2012:

In thousands of BGN	Country of incorporation	2013 Cost of investment	2013 Effective percentage of control	2012 Cost of investment	2012 Effective percentage of control
ZMM Bulgaria Holding AD	Bulgaria	7,885	99.998	7,885	99.998
Privat Engineering AD	Bulgaria	56,992	99.790	56,992	99.790
KRZ Port Burgas AD	Bulgaria	4,774	99.640	4,774	99.640
Bulyard AD	Bulgaria	2,557	61.500	11,682	61.500
Maritime Holding AD	Bulgaria	400	61.000	400	61.000
International Industrial Holding Bulgaria AG	Switzerland	130	100.000	130	100.000
KLVK AD	Bulgaria	46,096	68.000	39,980	64.470
Rekolta 2011 EAD	Bulgaria	2,300	100.000	2,300	100.000
Agro Pari AD	Bulgaria	66	66.000	-	-
		121,200		**124,143**	

In April 2013 the General Meetings of the shareholders of KLVK AD voted to increase the registered capital of the entity by issuing 2,200,000 ordinary voting shares with a nominal value of BGN 1 and an issue price of BGN 2,78 each. All shares of the capital increase were subscribed by the parent company Industrial Holding Bulgaria AD, thereby increasing its holding in this subsidiary. The capital increase was entered in the Registry Agency on May 20, 2013.

12. Investments in subsidiaries (continued)

In 2012 on the General Meetings of the shareholders of KLVK AD, the shareholders voted to increase the registered capital of the entity – once in March 2012, when the issued capital was increased by 2,515,873 ordinary voting shares with an issue price of BGN 3.15 each, and once in May 2012, when the issued capital was increased by new 4,900,000 ordinary voting shares with an issue price of BGN 2.97 and a nominal value of BGN 1 each. Industrial Holding Bulgaria AD participated in both issuances of the new shares of KLVK AD. At the first increase, Industrial Holding Bulgaria AD subscribed for 100% of the newly issued shares and at the second issue, the Company subscribed for 86.56% of the newly issued shares.

On 22 June 2012, the Registry Agency recorded an increase in the issued capital of Privat Engineering AD from BGN 9,558 thousand to BGN 10,788 thousand by issuance of 1,200,000 new ordinary voting shares with a nominal amount of BGN 1 and an issue price of BGN 10 each. Industrial Holding Bulgaria AD participated in the increase of the capital by subscribing 1,197,497 shares. The remainder of the newly issued shares were subscribed by the other shareholder of Privat Engineering AD – Bulkari EAD (indirect subsidiary of the Company).

In September 2013 the entity Agro Pari AD was established with a capital of 10,000 ordinary voting shares with a nominal amount of BGN 10 each. The entity provides consultancy services in relation to real estate management as well as all other activities permitted by law.

Industrial Holding Bulgaria AD subscribed 6,600 shares giving right of ownership of 66% of the capital of Agro Pari AD. The Company was registered in the Registry Agency in October 2013.

In 2012 the subsidiary Avgusta Mebel AD was sold (Note 5).

The Company owns 2 shares of the capital of Leyarmarsh AD, subsidiary of ZMM Bulgaria Holding AD.

Impairment testing

As of 31 December 2013, the management of the Company performed a review of impairment indicators of its investments and consequently performed impairment test on some of its investments (stated below). The cost of these investments (after recorded impairment) - Privat Engineering AD, KLVK AD, and Bulyard AD are BGN 56,992 thousand, BGN 46,096 thousand, and BGN 2,557 thousand respectively as of 31 December 2013. In 2013 impairment loss from Bulyard AD of BGN 9,125 thousand (2012: BGN 12,161) has been recognized.

Consistent with the approach followed in prior reporting periods, the management has identified three cash generating units (CGU) related to the identified investments:

- Privat Engineering AD (maritime transport sector/ industry)
- KLVK AD (maritime transport sector/ industry)
- Bulyard AD (shipbuilding/ship repairs sector/ industry)

The carrying amount of the investment allocated to each of the CGUs at the reporting date is:

	Carrying amount of the investment, allocated to each CGU	
In thousands of BGN	**2013**	**2012**
Privat Engineering AD	56,992	56,992
KLVK AD	46,096	39,980
Bulyard AD	2,557	11,682

12. Investments in subsidiaries (continued)

The management performed an impairment assessment of the investment in all Cash Generating Units as of 31 December 2013. This assessment was triggered by the following factors, which affect equally all three CGUs:

- The negative effects of the economic downturn on the world economy and trade and the respective effects on the business sectors of maritime transport, ship building and ship repair and especially:
    - The decrease in the charter rates applicable for the ships, owned by the subsidiaries of Industrial Holding Bulgaria AD.
    - The worsening conditions in construction and transport sector directly affect the utilization of the capacity of Bulyard Shipbuilding Industry EAD (indirect subsidiary). In the last three years and up until recently no new shipbuilding contracts have been signed.
    - Decrease, although to a smaller extent, in the expenses for repair and maintenance of the ships.
- The increased competition in the sectors of maritime transport, shipbuilding and ship repair.

The recoverable amount of the three CGUs has been determined using value in use calculation based on cash flow projections covering a 30-year period for Privat Engineering AD CGU and KLVK AD CGU and 5-year period for Bulyard AD CGU. The value in use calculations are based on cash flows projection from 2014 budget, prepared and approved by the management and rolled-over to cover the above stated periods. These projections reflect the specifics of the business sector/ industry of CGU-maritime transport and CGU-shipbuilding and repair as well as the latest management estimates on the expected performance over the projected period. The value of the CGUs after the explicit forecast period is based on terminal value estimates.

As a result, the Company has recognised impairment charge of BGN 9,125 thousand (2012: BGN 12,161) allocated as follows:

- Privat Engineering AD CGU – nil (2012: nil)
- KLVK AD CGU – nil (2012: nil)
- Bulyard AD CGU – BGN 9,125 thousand (2012: BGN 12,161 thousand)

Key Assumptions used in the value in use calculations

The calculation for the value in use of the three CGUs is based on following key inputs for each business sector:

- Maritime transport (CGU Privat Engineering AD and CGU KLVK AD)
    - Expected revenues from ship operation – for the first two years determined based on management estimates reflecting the effects of the current economic environment and thereafter based on 10-year adjusted industry average annual time-charter rates for the respective ship type and on the vessel specific historic performance;
    - Expected expenses for support and maintenance of the ships – based on adjusted industry average annual operating expenses for the respective ship type and on the vessel specific historic performance;
    - Expected investments in repairs and maintenance of the ships – based on the industry average values for the respective ship type and on the vessel specific historic performance;
    - Days of utilization of the ships – based on the industry averages for the respective ship type.

12. Investments in subsidiaries (continued)

Key Assumptions used in the value in use calculations

The calculation for the value in use of the three CGUs is based on following key inputs for each business sector:

- Shipbuilding and ship repair (CGU Bulyard AD)
    - Expected revenues from ship repair, reconstructions, and production of metal constructions and ship sections;
    - Expected expenses for completion of planned activities;
    - Capital expenditures for maintenance of the assets in operating condition;
    - Restructuring of the activities of Bulyard Shipbuilding Industry EAD and the shift of the management to leasing unused areas and warehouses.

Discount rate

The management has applied a post –tax discount rate as follows:

- 7.48% (2012: 7.09%) of CGU Privat Engineering AD and CGU KLVK AD;
- 11.58% (2012: 11.3%) of CGU Bulyard AD;

The discount rates are based on the Weighted Average Cost of Capital for similar to Industrial Holding Bulgaria Group companies adjusted for local and specific risk factors for the respective business sector/ industry in which the CGU is operating – maritime transport or shipbuilding/ship repair.

Terminal value

When determining the terminal value in the impairment tested described above, the management has used a terminal growth rate of 2.5%, which according to the management reflects the projected levels of inflation globally (and in Bulgaria in particular).

The tables below provide a sensitivity analysis of the key valuation assumptions (time-charter equivalent/ revenues and discount rate) for 2013 and the related amounts of impairment losses:

In thousands of BGN	**Impairment loss of investment in Privat Engineering AD**	**Impairment loss of investment in KLVK AD**	**Impairment loss of investment in Bulyard AD**
2013			
Discount rate			
Increase of 0.5%	none	none	(10,629)
Decrease of 0.5%	none	none	(7,447)
Revenue			
Increase of 0.5%	none	none	(8,383)
Decrease of 0.5%	none	none	(9,868)

12. Investments in subsidiaries (continued)

The tables below provide a sensitivity analysis of the key valuation assumptions (time-charter equivalent/ revenues and discount rate) for 2012 and the related amounts of impairment losses:

In thousands of BGN	**Impairment loss of investment in Privat Engineering AD**	**Impairment loss of investment in KLVK AD**	**Impairment loss of investment in Bulyard AD**
2012			
Discount rate			
Increase of 0.5%	none	none	(14,156)
Decrease of 0.5%	none	none	(9,936)
Revenue			
Increase of 0.5%	none	none	(11,352)
Decrease of 0.5%	none	none	(12,971)

13. Investments in associates

In thousands of BGN		**2013**		**2012**	
	Country of incorporation	Cost of investment	Effective percentage of control	Cost of investment	Effective percentage of control
Odessos PBM AD	Bulgaria	1,584	30.00	1,584	30.00
		1,584		**1,584**	

14. Other long-term receivables

The other long-term interest-bearing receivables of BGN 1,150 thousand (2012: 1,275 thousand) related to the disposal of the shares owned by Industrial Holding Bulgaria AD in Avgusta Mebel AD. The receivable is deferred and depending on the payment periods is presented as either long-term or short-term respectively.

As of 31.12.2013 an additional agreement was signed between Industrial Holding Bulgaria AD and the buyer of the shares of Augusta Mebel AD, with which the initially agreed sales price was redueed by BGN 200 thousand. The amount is reported under Other operating expenses in Note 8 of the statement of comprehensive income. The discount from the original price is a result of out-of-court settlement reached between the parties in lawsuit № 512/2012 concerning co-owned property of Avgusta Mebel AD and District Cooperative Union and Central Cooperative Union. They reached preliminary agreement for the monetary equivalent to be paid by Augusta Mebel AD.

15. Other receivables

In thousands of BGN	2013	2012
Short-term part of receivables from disposal of investment (Note 14)	5	155
Guarantees provided	-	73
Prepayments	8	6
Other receivables	-	8
	13	**242**

16. Cash and cash equivalents

In thousands of BGN	2013	2012
Cash in hand	7	10
Cash at banks	97	2,044
	104	**2,054**

Cash and cash equivalents in BGN are measured at nominal value and those in foreign currency – at the closing rate of Bulgarian National Bank at the reporting date. The foreign exchange losses/gains are reported as current income or expense.

17. Issued capital and reserves

The share capital is reported at its par value in accordance with the Company's legal registration.

In thousands of BGN	2013	2012
67,978,543 ordinary shares with a nominal of BGN 1 each	67,978	67,978
	67,978	**67,978**

The share capital of the Company comprises 67,978,543 personal non-cash voting shares with par value of BGN 1 each which are quoted on the Bulgarian Stock Exchange. The share capital is recorded at nominal value and is fully paid. There are no preference shares and shares payable to bearer.

Shareholders in Industrial Holding Bulgaria AD as at 31 December 2013 and 31 December 2012 who hold over a 5% of the share capital of the Company:

Shareholder	**Number of shares as at 31.12.2013**	**2013**	**2012**
Venside Enterprises	20,399,604	30.01%	30.01%
BULLS AD	9,537,921	14.03%	14.03%
MUPF Allianz Bulgaria AD	4,646,278	6.83%	6.83%
DZH AD	3,977,174	5.85%	5.85%
Stok Turs AD	3,540,523	5.21%	5.21%
Other	25,877,043	38.07%	38.07%
	67,978,543	**100.00%**	**100.00%**

17. Issued capital and reserves (continued)

Reconciliation of issued shares:	**Number of shares**	**Amount**
In thousands of BGN		
Ordinary shares issued and fully paid		
At 1 January 2012	67,978,543	67,978
At 31 December 2012	**67,978,543**	**67,978**
At 31 December 2013	**67,978,543**	**67,978**

Reconciliation of the share premium	**Amount**
In thousands of BGN	
At 1 January 2012	30,604
At 31 December 2012	**30,604**
At 31 December 2013	**30,604**

Legal and other reserves

Legal reserves are set aside by joint-stock companies like Industrial Holding Bulgaria AD from retained earnings in accordance with the provisions of article 246 of the Commercial Act. Legal and other reserves include reserves formed by setting aside 10% or more of the net profit, share premiums from issuing of shares, and any funds according to the articles of association. The legal reserves can be used only for covering of losses from current and previous reporting periods. At 31 December 2013 the legal and other reserves are BGN 7,989 thousand (2012: 7,398 thousand).

Treasury shares

In relation to the decision reached at the General Meeting of the Shareholders for treasury shares transactions, the Managing Board of Industrial Holding Bulgaria AD decided that the maximum number of shares that will be repurchsased in 2013 is 3% of the registered capital of the Company, which currently is 67,978,543 shares, namely 2,039,356 shares.

The chosen investment intermediary is Alianz Bank Bulgaria AD.

In 2013 a total of 967,141 shares were repurchased at an average price of BGN 0,794 per share and acquisition costs of BGN 3 thousand.

17 (a). Earnings per share

The calculation of basic earnings per share as of 31 December 2013 is based on the profit attributable to ordinary shareholders of BGN 11,922 thousand (31 December 2012: BGN 5,914 thousand) and a weighted average number of ordinary shares available for the period ended 31 December 2013 of 67,572 thousand (31 December 2012: 67,978 thousand).

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bond) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

In thousands of BGN	2013	2012
Profit for the year	11,922	5,914
Profit attributable to ordinary equity holders of the parent	**11,922**	**5,914**
Interest on convertible bond, net of tax	1,742	1,620
Profit attributable to ordinary holders of the parent adjusted for the effect of dilntion	**13,664**	**7,534**

In thousand of shares	2013	2012
Ordinary shares issued at 1 January	67,978	67,978
Treasury shares transactions	(967)	-
Number of ordinary shares at the end of the respective year	**67,011**	**67,978**
Weighted average number of shares at 31 December	67,572	67,978

In thousand of shares	2013	2012
Weighted average number of shares at 31 December	67,572	67,978
Effect of dilution of convertible bond	24,251	10,857
Weighted average number of ordinary shares adjusted for the effect of dilution	**91,823**	**78,835**

Basic earnings per share (BGN)	0.176	0.087
Diluted earning per share (BGN)	0.149	0.096

18. Debenture loan

In thousands of BGN	2013	2012
Debenture loan	30,000	21,714
Transaction costs	(88)	(123)
Interest charged	401	355
	30,313	**21,946**
of which long-term portion	**29,912**	**-**
of which short-term portion	**401**	**21,946**

18. Debenture loan (continued)

The Extraordinary General Meeting of Shareholders held on 17 December 2012 took the following decisions:

1. Decision for the issuance under the conditions of an initial public offering of an issue of dematerialized by name, interest-bearing, convertible, freely-transferable and unsecured bonds;
2. Decision to amend the conditions of bond issue ISIN BG 2100018113;
3. Decision to reacquire shares issued by Industrial Holding Bulgaria AD.

Following Article 214, para 1 of the Commercial Act, the Bondholders Representative, Antoaneta Mihailova Dimolarova, elected with a decision of the First General Meeting of Bondholders on 10.11.2011, convenes a General Meeting of the Bondholders of convertible bonds issue ISIN BG 2100018113, issued by Industrial Holding Bulgaria with identification number 121631219, on 17.12.2012 under the following Agenda and took the following decisions:

1. Decision for the issuance under the conditions of an initial public offering of an issue of dematerialized by name, interest-bearing, convertible, freely-transferable and unsecured bonds with the following parameters and purpose:
   - Total nominal and issue value of the debenture loan: Up to BGN 30,000,000;
   - Nominal value per bond: BGN 100;
   - Issue value per bond: BGN 100;
   - Number of bonds: Up to 300,000;
   - Minimal amount at which the loan is deemed as concluded: upon subscription and payment of bonds of a total nominal value of no less than BGN 22,000,000 /twenty two million/;
   - Term (maturity) of the debenture loan: 2 years (24 months);
   - Interest rate: 6.5% per year;
   - Interest payment period: 6 months;
   - Procedure for conversion of bonds into shares (conversion procedure): conversion - on the maturity date of the bonds, each bond holder shall be entitled, under the terms of the debenture loan and prospectus for public offering of the issue of convertible bonds, instead of repayment of the bonds held, to exchange (convert) them for such a number of shares as would correspond to the conversion ratio valid at the time of the exchange.
   - Purpose of the debenture loan: the funds raised through the issue will be used to reimburse the debenture loan under a previous issue of convertible bonds - ISIN 2100018113, issued by Industrial Holding Bulgaria, partial refinancing of Diamond Sky ship, expansion of Dockyard Burgas and other small projects of subsidiaries.

2. Decision to amend the conditions of bond issue ISIN BG 2100018113:

If the decision under paragraph 1 is approved and the issue is successfully subscribed and paid for, the General Meeting of the shareholders adopts a decision to change the maturity of bond issue ISIN BG 2100018113 as follows: the payment of the principal of the debenture loan amounting to BGN 21,713,900 (twenty-one million seven hundred and eighteen thousand Bulgarian levs) will be paid within 10 days following the absorption of funds under the new bond issue together with the due interest until the payment of the principal.

As a result of the above facts, the Company presents the liability on the bond issue ISIN BGN 2100018113 as a short-term liability as of 31 December 2012.

The prospect for public offering for the new issue of convertible bonds is approved with a decision of FSC 138-E/20.02.2013.

18. Debenture loan (continued)

The public offering of convertible bonds of Industrial Holding Bulgaria AD was successfully completed with the following results:

- Closing date of the public offering – 17.04.2013;
- Total number issued rights – 67,978,543;
- Total number of convertible bonds offered for subscription - 300,000;
- Number of subscribed and paid convertible bonds – 299,998;
- Amount received from the subscribed and paid convertible bonds in the special account in Allianz Bank Bulgaria AD – BGN 29,999,800;

On 24.04.2013 the Trade Register published an announcement for the conclusion of debenture loan and invitation to the First General Meeting of Bondholders for issue of convertible bonds ISIN code BG 2100006134 issued by Industrial Holding Bulgaria. According to a decision of the Managing Board of Industrial Holding Bulgaria AD which was reached on 24.03.2013 the conditions for principal payment of debenture loan ISIN code BG 2100018113 were in place in accordance with decisions of the General Meeting of the Shareholders as of 17.12.2012 and General Meeting of Bondholders of corporate convertible bonds ISIN code BG2100018113 as of 17.12.2012.

In compliance with decisions of the General Meeting of Shareholders as of 17.12.2012 and General Meeting of Bondholders of corporate convertible bonds ISIN code BG2100018113 as of 17.12.2012, the principal payment was made on 26.04.2013 together with the accrued interest for the period between 19.04.2013 – 26.04.2013. The right of interest and principal payment was entitled to all bondholders registered with the Central Depository as of 19.04.2013 (Record Date). The interest rate is 8 % annually.

The convertible bond with ISIN code BG 2100006134 requires compliance with certain financial ratios until the maturity of the bond issue. The issuer has to maintain the ratio of liabilities / assets not higher than 65%, the current liquidity ratio not lower than 0.5 and the ratio of Interest-bearing debt / assets not higher than 50%. These financial indicators are calculated and reported on the basis of consolidated data for Industrial Holding Bulgaria at the end of every quarter. If Industrial Holding Bulgaria violates the specified financial ratios the Company must take actions within six months to bring the ratios in accordance with the set covenants. In the event that IHB AD does not meet the covenants within six months, the issuer is obliged to offer a program that should be approved by the General Meeting of Bondholders with a quorum of more than 50% of the bondholders and a decision made by a majority of more than 50% of the submitted bonds that are to be executed by the Issuer.

Bondholders who hold, in aggregate, together or separately, 25% of the bond issue are entitled to send written notice to the Issuer in the event of non-payment of the interest due, a breach of financial covenants, liquidation and other conditions and make the bond immediately payable at its nominal value together with accrued interest.

Based on the fact that to this date the Group has serviced without delay its obligations under the previous and curreny bond issues, complies with the financial covenants and timely informs the representative of the bondholders about all important events of its business, the management of the Company believes that there is no problem for servicing the bond obligations.

Of 18.10.2013 the first interest payment in the amount of BGN 977 thousand was paid under bond issue with ISIN code BG2100006134.

19. Retirement benefits

The estimated liability for retirement benefits in accordance with the requirements of the Labor Code and IAS 19 as of 31.12.2013 is BGN 19 thousand (2012:BGN 6 thousand).

There are no reasonably possible changes in the key assumptions that could have a significant impact on the retirement benefit liability as of year-end.

The average maturity of the retirement benefit is approximately 20 years (2012: 17 years).

20. Trade and other payables

In thousands of BGN	*Note*	**2013**	**2012**
Payables for shareholders' rights sold		60	18,342
Payables to suppliers		25	59
Payables to social security institutions		11	-
Others		3	-
		99	**18,401**

The liabilities on shareholders' rights sold arising from the increase in share capital in 2007 and unpaid untill February 2013 were derecognized as Industrial Holding Bulgaria AD discontinued their payment because of extinguishment of legally prescribed period. These liabilities are derecognised in the profit and loss in the first quarter of 2013 (Note 6). Liabilities on shareholders' rights sold at 31.12.2013 at the amount of BGN 60 thousand have arisen as a result of the capital increase of the Company in 2011, issuance of bond with ISIN code BG 2100018113 whose procedure was successfully completed on 17 October 2011 and the issuance of bond with ISIN code BG2100006134 in 2013. The repayment of these is still in progress.

21. Related parties disclosures

Shareholders
At 31 December 2013 and 2012, the structure of the issued and paid-in capital of the Company is presented in Note 17.

Direct Subsidiaries
The subsidiaries of Industrial Holding Bulgaria AD at 31 December 2013 and 31 December 2012 are presented in Note 12.

Indirect Subsidiaries
Bulyard Shipbuilding Industry EAD is an indirect subsidiary of Industrial Holding Bulgaria AD because it is a subsidiary of the direct subsidiary of Industrial Holding Bulgaria AD – Bulyard AD. IHB Electric AD, Mashstroi AD, Leyarmash AD, and Bulkari AD are indirect subsidiaries of Industrial Holding Bulgaria AD because they are subsidiaries of the direct subsidiary of Industrial Holding Bulgaria AD – ZMM Bulgaria Holding AD. IHB Shipping Co EAD and Emona Ltd. are indirect subsidiaries because they are subsidiaries of of the subsidiary of Industrial Holding Bulgaria AD – Privat Engineering AD. Serdika Ltd. is an indirect subsidiary because it is a subsidiary of the subsidiary of Industrial Holding Bulgaria AD – KLVK AD.

Assosiates
Odesos PBM AD is an associate of Industrial Holding Bulgaria AD. Further details are presented in Note 13.

21. Related parties disclosures (continued)

21.1. Related parties balances

Long-term loans granted to related parties

In thousands of BGN	2013	2012
Subsidiaries	1,735	1,574
Indirect subsidiaries	61,118	55,923
	62,853	57,497

Short-term receivables from related parties

In thousands of BGN	2013	2012
Receivables on loans granted, including interest		
Subsidiaries	-	819
Indirect subsidiaries	3,963	1,285
	3,963	2,104
Dividend receivables		
Subsidiaries	624	-
Receivables for services rendered		
Indirect subsidiaries	30	74
	654	74
	4,617	2,178

In 2013 IHB AD granted loans to Bulyard Shipbuilding Industry EAD at the amount of BGN 5,195 thousand on three contracts with maturity date in the end of 2015 and annual interest rate of 5%. Thus the total outstanding granted loans to Bulyard Shipbuilding industry EAD as at 31 December 2013 is BGN 65,081 thousand, with maturities in 2015 and annual interest rates of 5% to 6%.

The total amount of the loans granted to KLVK AD for the same period is BGN 809 thousand with maturity date 03.05.2015 and annual interest rate of 6%. KLVK AD has repaid loans at the amount of BGN 1,435 thousand and interest at the amount of BGN 99 thousand. The outstanding granted loan to KLVK AD as at 31 December 2013 is BGN 935 thousand.

As at 31 December 2013 the Company reported total outstanding amount to Privat Engineering AD of BGN 799 thousand, repayable in 2015 with annual interest rate of 5% to 6%.

For the period 01.01.2013 to 31.12.2013 Industrial Holding Bulgaria AD has granted loan to Emona Ltd. at the amount of BGN 74 thousand (USD 50 thousand) with maturity date 31.12.2013 and annual interest rate of 3%; to KRZ Port Burgas AD – BGN 100 thousand with maturity date 31.12.2013 and annual interest rate of 6%; to IHB Shiping Co EAD – BGN 328 thousand with maturity date 31.12.2013 and annual interest rate of 4%, and to Serdika Ltd. at the amount of BGN 117 thousand. These loans were repaid.

Payables to related parties

In thousands of BGN	2013	2012
Deposits (including interest)		
Subsidiaries	2,306	-
Indirect subsidiaries	1,770	2,120
	4,076	2,120

In May 2013 Industrial Holding Bulgaria AD received a deposit by Rekolta 2012 EAD at the amount of BGN 260 thousand. The maturity date of the deposit is 29 March 2014 and the annual interest rate is 4%. In April 2013 the deposit was increased and as of 31.12.2013 the amount of the deposit is BGN 1,310 thousand.

21. Related parties disclosures (continued)

21.1. Related parties balances (continued)

Payables to related parties (continued)

In March 2013 Industrial Holding Bulgaria AD received a deposit from Meritaim Holding AD at the amount of BGN 350 thousand. The maturity of the deposit is 1 year, annual interest rate – 5%.

For the period 11.04.2013 - 18.04.2013 Industrial Holding Bulgaria AD received a deposit from KRZ Port Burgas AD at the amount of BGN 685 thousand and paid interest at the amount of BGN 1 thousand.

In October the Company received an annual deposit from KRZ Burgas at the amount of BGN 616 thousand with an annual interest rate of 6%.

As at 31 Deeember 2012, Industrial Holding Bulgaria AD has received a deposit from IHB Eletric AD at the amount of BGN 1,255 thousand. The deposit is provided as collateral on bank guarantees, issued to IHB Electric AD. The deposit is granted until 31 December 2014 and the annual interest rate is 5%.

In April and August 2013 a part of the deposit received by IHB Electric AD at the amount of BGN 508 thousand was repaid which reduced its amount to BGN 747 thousand.

At 31 December 2012, Industrial Holding Bulgaria AD has received a deposit from Mashtroi AD in the amount of BGN 850 thousand. The maturity of the deposit was changed from 31.12.2013 to 30.06.2014 and the annual interest rate of 4%.

21.1. Related parties transactions

In thousands of BGN	**2013**	**2012**
Dividend income		
- Subsidiaries	4,633	6,134
- Associates	-	120
Interest income		
- Subsidiaries	131	351
- Indirect subsidiaries	3,548	3,565
Interest expenses		
- Subsidiaries	60	-
- Indirect subsidiaries	84	51
Revenue from rendering of services		
- Indirect subsidiaries	41	59
Loans granted to		
- Subsidiaries	909	4,048
- Indirect subsidiaries	5,714	1,558
Repaid loans by		
- Subsidiaries	1,558	20,802
- Indirect subsidiaries	1,245	-
Deposits received		
- Subsidiaries	3,140	-
- Indirect subsidiaries	150	1,850

21. Related parties disclosures (continued)

21.1. Related parties transactions (conclusion)

In thousands of BGN	**2013**	**2012**
Repaid deposits by		
- Subsidiaries	865	-
- Indirect subsidiaries	508	245

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made on contractual terms. Outstanding balances at the year-end are unsecured (except for loans) and interest free (except for loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables (except for the ones listed below). For the year ended 31 December 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2012: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Company

In thousands of BGN	**2013**	**2012**
Short-term employee benefits of the Management Board and the Supervisory Board, including social security	**157**	**150**

22. Commitments and contingencies

Legal claim contingency

As of 31 December 2013 no legal claims has been initiated against the Company.

Guarantees
Under a signed contract with a commercial bank to provide credit limit for issuance of bank guarantees, letters of credit and working capital funding for the Holding and/or group companies amounting to a maximum of BGN 10,000 thousand, as of 31 December 2013 bank guarantees for BGN 748 thousand (2012: BGN 30 thousand) securing advance payments from clients were issued by IHB Electric AD, Leyarmash AD and KRZ Port Burgas, letters of credit for BGN 573 thousand (2012: BGN 4,685 thousand) were opened in Bulyard Shipbuilding Industry EAD and a revolving credit line for working capital funding for BGN 3,000 thousand (2012: BGN 3,000 thousand) was concluded. The contract with this bank is secured with a second ranking special pledge on the trading company - KRZ Port Burgas AD as a set of rights, obligations and actual relations, with registration of the underlying assets in the relevant registries.

In February 2010 and August 2011 Industrial Holding Bulgaria AD signed contracts with a commercial bank pursuant to which it becomes the guarantor under signed credit contracts for USD 20,000 thousand granted by the bank to Privat Engineering AD, subsidiary, with remaining balance of USD 12,472 thousand (BGN 17,697 thousnd) as of 31 December 2013 (2012: USD 15,103 thousand (BGN 22,407 thousand)).

Industrial Holding Bulgaria AD has provided guarantees in relation to option to participate in its subsidiary Rekolta 2011 EAD with investment intention together with Alfa Finance Holding AD and Diamond Solar Europe Limited (100% owned by Mitsubishi Corporation). The guarantee is for EUR 3,700 and is secured. In April 2013 the three parites to the contract have concluded the contract and the engagement of IHB AD as a guarantor was discontinued.

22. Commitments and contingencies

Others

The management of the Group is of the opinion that no significant risks exist as a result of the dynamic fiscal and regulatory environment in Bulgaria that might require adjustments or disclosure in the financial statements for the year ending 31 December 2013.

23. Financial instruments

Risk management

Review

The Company is exposed to the following risks from its use of financial instruments:
- credit risk
- liquidity risk;
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework
The Management Board has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss and arises principally from the Company's receivables from customers and investment securities.

23. Financial instruments (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of BGN	2013	2012
Cash and cash equivalents	97	2,044
Other receivables	1,155	1,511
Investments in subsidiaries	121,200	124,143
Investments in associates	1,584	1,584
Related party receivables	67,470	59,675
	191,506	**188,957**

Other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, especially is case of deteriorating economic conditions.

The receivables of the Company as of 31 December 2013 are mainly from related parties in relation to the investment program for financing of the construction of ships. Any amounts of financing provided are approved by the Management Board of the Company.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The maximum exposure to credit risk for other receivables at the reporting date by geographic region was:

	2013	2012
Other receivables from third parties, registered in Bulgaria	1,155	1,511
Receivables from Group companies, registered in Bulgaria	67,470	59,675
	68,625	**61,186**

23. Financial instruments (continued)

Impairment losses

Aging analysis of other receivables as of the reporting date:

In thousands of BGN	**2013**		**2012**	
	Gross amount	Impairment	Gross amount	Impairment
Neither past due nor impaired	64,664	-	60,529	-
Past due 0 – 180 days	1,807	-	628	-
Past due 180 – 360 days	1,725	-	29	-
Past due over 360 days	429	-	-	-
	68,625	**-**	**61,186**	**-**

Investments
Investments are mainly in businesses and companies where the Holding has controlling interest and can determine the strategy of their development. Portfolio investments are mainly in liquid securities. The management does not expect any default on such investments.

Guarantees
The Company's policy is to provide financial guarantees only to subsidiaries, after obtaining approval from the Management Board and the Supervisory Boards.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses for a 30 day period, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2013

In thousands of BGN	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivatives liabilities							
Trade and other payables	99	(99)	(99)	-	-	-	-
Debenture loan and interests	30,313	(32,926)	(977)	(976)	(30,973)	-	-
Deposits received from related parties	4,076	(4,120)	(3,345)	(775)	-	-	-
	34,488	**(37,145)**	**(4,421)**	**(1,751)**	**(30,973)**	**-**	**-**

23. Financial instruments (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2012

In thousands of BGN	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivatives liabilities							
Trade and other payables	18,401	(18,401)	(18,401)	-	-	-	-
Debenture loan and interests	21,946	(22,583)	(22,583)	-	-	-	-
Deposits received from related parties	2,120	(2,217)	-	(2,217)	-	-	-
	42,467	**(43,201)**	**(40,984)**	**(2,217)**	-	-	-

As disclosed in Note 18, the Company has convertible debenture loan. Any breach of covenant may require the Company to repay the loan earlier than the initial maturity. Bonds are convertible and/or payable at maturity date. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis eould occur significantly earlier, or at signifieantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as exchange rates, interest rates or prices of equity instruments will affect the income of the Company or the value of its investments. The purpose of market risk management is to control the exposure to market risk within acceptable limits through return rate optimization.

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company - the BGN. The currencies in which these transactions primarily are denominated are in (EUR) and (USD). Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the other party on the loan contract, primarily BGN and Euro, but also USD. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

23. Financial instruments (continued)

Currency risk (continued)

Exposure to currency risk
Exposure to currency risk of the Company is as follows:

In thousands of BGN	BGN	EUR	USD	BGN	EUR	USD
		31 December 2013			**31 December 2012**	
Trade and other receivables	-	1,155	-	81	1,430	-
Related party receivables	654	-	-	74	-	-
Loan receivables from related parties	5,598	61,218	-	1,702	57,899	-
Cash and cash equivalents	92	10	2	2,041	10	3
Payables on convertible bond	(30,313)	-	-	(21,946)	-	-
Payables to related parties	(4,076)	-	-	(2,120)	-	-
Trade and other payables	(99)	-		(20,521)	-	-
	(28,144)	**62,383**	**2**	**(38,569)**	**59,339**	**3**

Financial instruments denominated in EUR are not exposed to currency risk due to the fixed BGN/EUR exchange rate. The following significant exchange rates are applied during the year:

	Average exchange rate		**Exchange rate as of the reporting date**	
	2013	2012	2013	2012
BGN/ 1 USD	1.47362	1.52314	1.41902	1.4836

Interest rate risk

The Company manages its exposure to interest rate risk by borrowing and lending at fixed rates.
At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

In thousands of BGN	**2013**	**2012**
Fixed rate instruments		
Financial assets	62,835	60,439
Financial liabilities	(33,934)	(23,696)
	28,901	**36,743**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	-	-

Sensitivity analysis for fixed rate instruments
The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss and equity.

23. Financial instruments (continued)

Capital management

The policy of the Management Board is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, reserves and retained earnings. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

24. Fair value of financial instruments

Set out below is a comparison by class of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	Carrying amount		*Fair value*	
	2013	**2012**	**2013**	**2012**
	BGN '000	*BGN '000*	*BGN'000*	*BGN '000*
Financial assets				
Loans granted to related parties	66,816	59,601	66,816	59,601
Other receivables	1,155	1,511	1,155	1,511
Related party receivables	654	74	654	74
Cash and cash equivalents	104	2,054	104	2,054
Financial liabilities				
Debenture loan	30,313	21,946	30,313	21,946
Related party payables	4,076	2,120	4,076	2,120
Trade and other payables	99	18,401	99	18,401

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Loans granted to related paries, other receivables, related party receivables, cash and cash equivalents, debenture loan, related party payables, and trade and other receivbles and payables – the fair values of these instruments approximate their carrying amounts.

25. Subsequent events

In relation to the decision taken at the General Shareholder Meeting for the treasury shares transactions, in January 2014, 6,125 shares were repurchased at an average price of BGN 0.84 per share.

At the General Shareholder Meeting of Maritime Holding AD on 20 February 2014, a dividend at the amount of BGN 3.22 per share (total amount of BGN 845 thousand) was declared. Industrial Hodling Bulgaria AD's share is 61% or BGN 515 thousand.

On 26 February 2014 IHB AD as sole owner of Rekolta 2011 EAD has decided to distribute dividend at the amount of BGN 560 thousand from the net result for 2013 and the retained earnings from previous years.

25. Subsequent events (continued)

At the annual General Shareholder Meeting of ZMM Bulgaria Holding AD, a dividend distributionfor at amount of BGN 0.50 per share (total amount 2,796 thousand) has been voted.

On 18 February 2014 the General Shareholder Meeting of Agro Pari AD voted to discontinue the company's operations and to start a process of liquidation.

On 5 March 2014 at the Assembly meeting, the decision for the establishment of a new company IHB shipdesign EAD has been accepted. Industrial Holding Bulgaria AD has subscribed 100% of the shares of the new entity. The company was registered in the Trade Register on 18 March 2014.

Except for the above disclosed events, no other events have occurred after 31 December, which require additional adjustments and/or disclosures in the Company's financial statements for the year ended 31 December 2013.