

# Annual Report 2004



**INDUSTRIAL  
HOLDING  
BULGARIA**



## IHB AT A GLANCE

**480%**

Share price growth 2004 to 2003

**119%**

Consolidated profit growth 2004 to 2003

**112%**

Consolidated EPS growth 2004 to 2003

## IHB AT A GLANCE

IHB is a public limited company managing investment portfolio of companies from different industries. IHB aims to possess controlling interest over 51%, which gives the opportunity to determine the strategy and to achieve the strategic management of the companies from its portfolio. In partnership with other investors, IHB invests in projects in which it can have significant influence - up to 50%.

IHB pursues a permanent optimization of the investment portfolio. As at 2005 the investments are mainly in the following industries: shipbuilding and repair, machine building, real estates and river cruises.

IHB is one of the first public limited companies and one of the first listed companies on the official market of Bulgarian Stock Exchange - Sofia. IHB shares have been traded since August 1998. Since March 2005 IHB shares are the only traded on segment A of the official market.

## The beginning

The company was established in September 1996 as a privatization fund with the objective of participation in the mass privatization process in Bulgaria during 1996 - 1997.

In February 1998, Privatization Fund Bulgaria PLC was reorganized as a Holding Company in accordance with the Law of Commerce and was renamed as Industrial Holding Bulgaria PLC /IHB/.

## The activities

IHB's main activities are acquisition, evaluation and sales of equity in companies, management of companies in its portfolio, financing its subsidiaries.

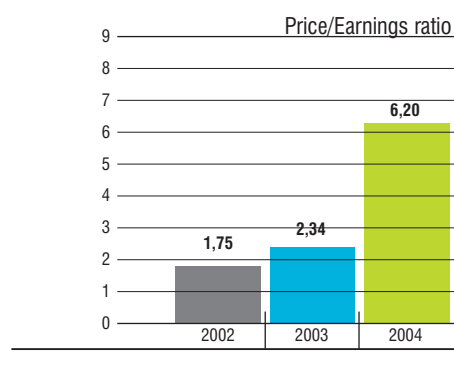
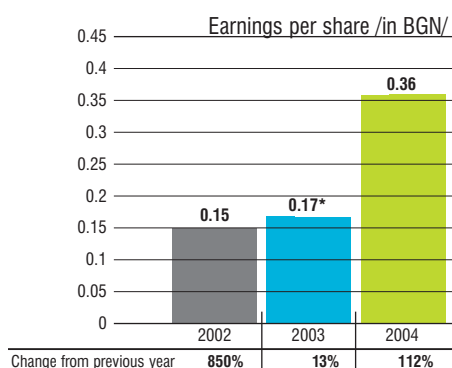
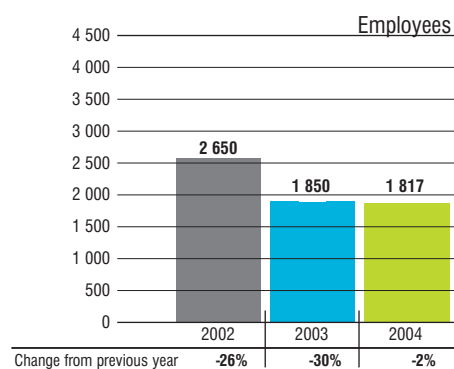
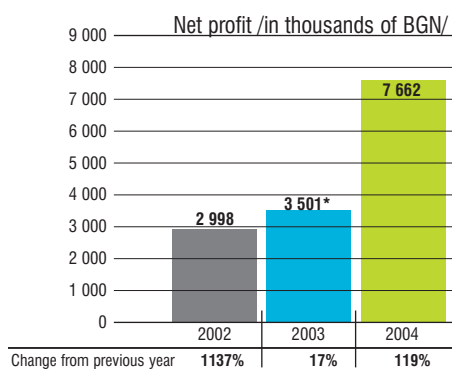
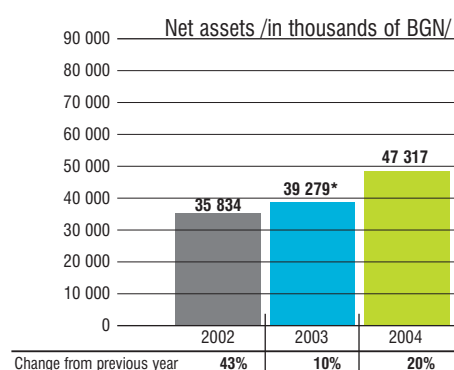
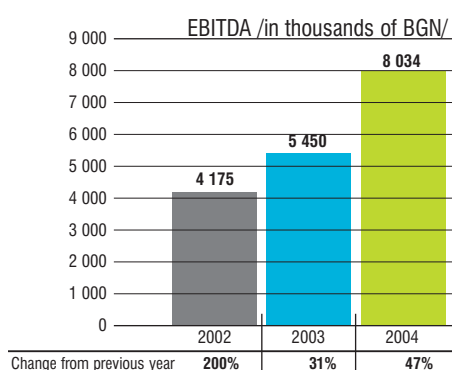
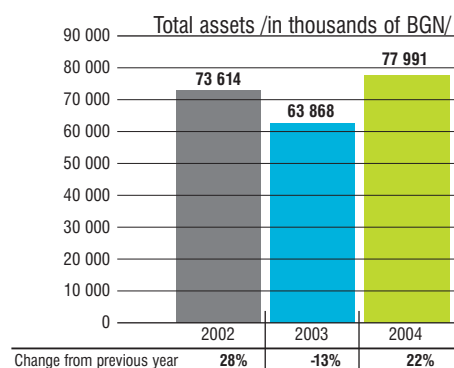
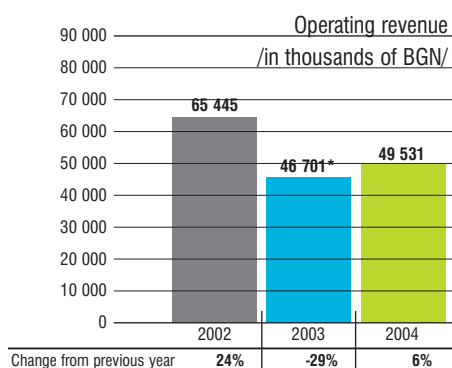
## The capital and shareholders

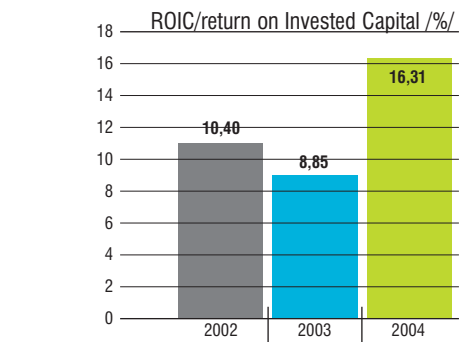
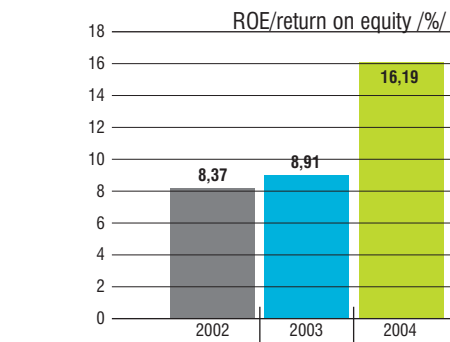
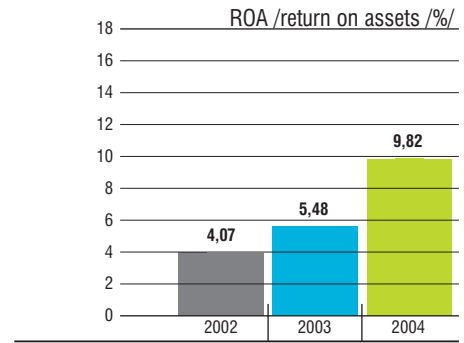
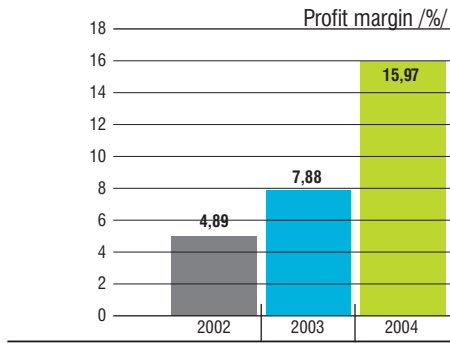
IHB is the fifth privatization fund in terms of size of issued capital in investment bonds and number of shareholders among 81 privatization funds licensed in Bulgaria. The founding capital was BGN 2 654 985 and the founders were 110 000 shareholders. After several capital raisings, as at June 30, 2005 the issued capital of IHB is BGN 21 003 235, distributed in 21 003 235 ordinary voting shares with BGN 1 nominal value. As at June 2005, IHB has over 78 000 natural and 100 legal persons, possessing respectively 51 % and 49 % from the voting shares. Foreign investors own 39 % from the voting shares. As at June 2005 IHB is №1 in market capitalization among the former privatization funds.

## The vision

IHB is ranked among the top 5 industrial holdings in Bulgaria. IHB continuously supports its subsidiaries to become best performers in their business activities and encourages its employees to improve their individual skills. Due to its prosperous subsidiaries, IHB generates high shareholder value. It is therefore attractive for investors and reflects the sound image of a solid and sustainable company.

# Financial Highlights



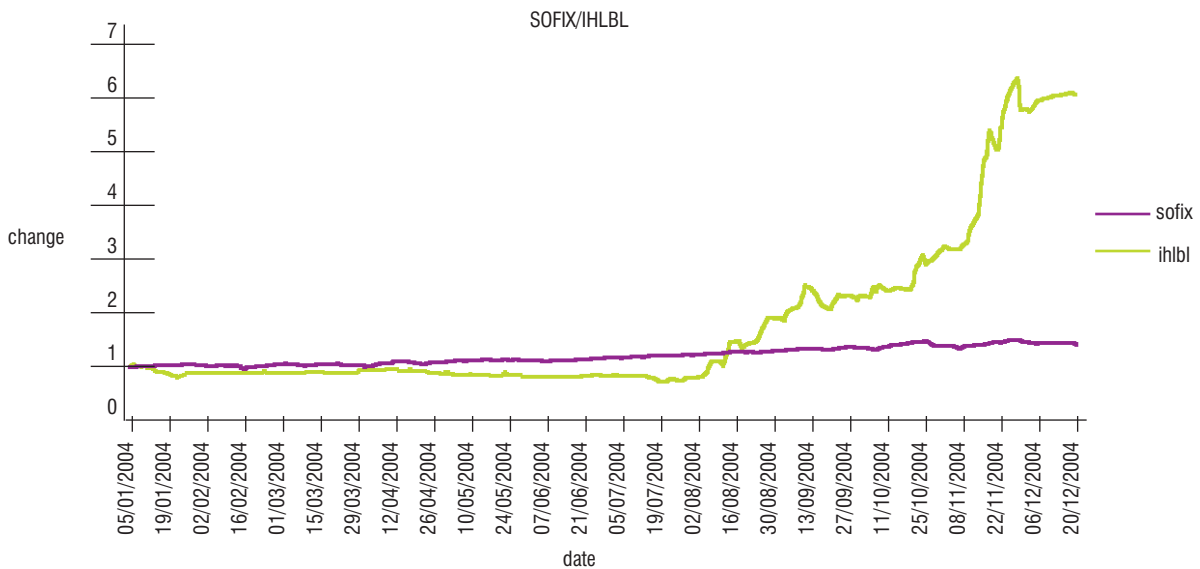


The indicated data are as at December 31 of the relevant year and are in accordance with the consolidated annual financial reports audited by KPMG for the period, drawn out in accordance with the International Accounting Standards /IAS/.

\* The data for 2003 were modified in result of a change made in the accountancy policy of the Group with regard to the reporting of provisions for indemnifications in events of retirement. The juxtaposable data for 2003 were corrected, rendering an account of the effects related to the change for deferred taxes as well. The value of a provision related to the obligations under the Unattended Credits Settlement Act of one of the subsidiaries within the Group was also corrected. The effects were retrospectively reported.

/See consolidated annual financial report - Notes to the consolidated financial reports letter (c)./

1 BGN = EUR 0.51









# CONTENTS

	page
CEO's Letter	8
Management	10
Corporate governance	12
IHB team	14
Annual Consolidated management report	15
Consolidated financial statement	29
Independent auditors report	30
IHB portfolio presentation	61



*Dear shareholders,*

2004 was a year of intensive growth both for Bulgaria and IHB Group. The perspective for the European Union membership, the foreign investments wave and the political stability in the country were favorable for IHB performance. We are happy to report outstanding financial results to investors and financial analysts. IHB consolidated profit grew by 119% up to BGN 7,662 million, market capitalization increased by about 5 times and IHB's shares were the most liquid position on the Bulgarian Stock Exchange - Sofia.

Undoubtedly, the transparent policy carried out by the Management was of great significance for the investment community assessment. It was not a coincidence that IHB had been awarded with the prize "Public Company of the Year" for providing best disclosure of information. The first and sole for the time being issue of convertible bonds in the Bulgarian capital market, issued by IHB in 2004, was fully subscribed.

The good financial results of the Group reported for 2004 were also a consequence of several key factors having their roots in 2003 already:

- ✓ Concentration of IHB's portfolio and investments in the priority sectors for the Holding - machine building, shipbuilding, ship repair and port activities, river cruises and real estates. That has been achieved through transition from investments in associates into investments in subsidiaries;
- ✓ Increase of the productivity and the quality of the products offered, activation of the sales network with an increasingly growing role of exports.

In this respect in 2004 IHB started to transform its minority stock investment in Odessos Dockyard into a majority share in Bulyard Shipbuilding Industry, as the transaction was finalized in 2005.

However, we should not forget that the above priorities have, to a great extent, predetermined the leading role of IHB in some of the most difficult industries (both in respect of their operation and management) - industries that require significant investments and manpower.

That is why the achievements, the loyalty and the diligence of our employees are of great significance for me. I am proud of the high level of competence of our subsidiaries' management with its empathy and entrepreneurship spirit.

Analyzing the Group's investments development, IHB Management set up the ambitious goal all portfolio companies to end 2005 at profit. The task for this year is 15% consolidated profit on a net assets value basis or about BGN 10 million for the Group.

*Dear shareholders,*

Our wish is to keep the place of Industrial Holding Bulgaria amongst the leading public limited companies in the country both with regard to a stable growth of its net assets and profit, and to its market capitalization. All of us are well aware that the key word is "Trust". Trust which our team shall try to keep constantly, protecting the shareholders' value and meeting up the expectations of our employees, management, and investors.

*Daneta Zhelova*

CEO

## MANAGEMENT



IHB has a two-tier management system - Managing Board and Supervisory Board

### Supervisory Board (SB)

DZH AD - Chairman

DZH AD is a family company with main activities investments in real estates and securities. The company is the second one out of the biggest shareholders in IHB.

In the SB, DZH AD is represented by Mr. Rossen Dimolarov

1. Rossen Dimolarov (45) joined the management team of IHB in February 1997, when he was elected member of the Managing Board and Executive Director. In September 1999 he became CEO of IHB and remained on this position until July 2003 when he moved to the Supervisory Board as a representative of DHZ AD. He has rich experience in business administration of commercial companies. He graduated law in Sofia University Kliment Ohridski. MLL in Law.

### 2. Mrs. Snejana Hristova

Snejana Hristova (55) joined the management team in 2003 when she was elected member of the Managing Board.

In July 2003 she was elected independent member of the SB. She has rich experience in the insurance sector and business administration of commercial companies.

She graduated Insurance in the Economic Academy D.A. Tzenov in Svishtov. MSc in Economics.

### 3. Mr. Konstantin Zografov

Konstantin Zografov (48) joined the SB in September 1999. He has rich experience in business administration in the Ministry of Defense and General Staff of Bulgarian Army, Organization for Security and Cooperation in Europe, commercial companies and international non-profit organizations. He graduated National Military University Vassil Levski in Veliko Tarnovo, with civil major eastern languages, Staff College G.S. Rakovski in Sofia and Defense and Security policy strategic course in the GCSP, Geneva, Switzerland.

Mr. Zografov is Associated Director of AFCEA International and Regional Vice President of AFCEA International for Mediterranean and Black Sea region.



#### Managing Board (MB)

##### 1. Mr. Bojidar Danev - Chairman

Bojidar Danev (66) has been member of the Managing Board and its Chairman since IHB's establishment. Mr. Danev has a great experience in business administration of commercial companies and non-government organizations. He graduated the Technical University, Sofia and has a PhD specialization in Germany. MSc in Engineering, PhD in Economics and Senior Research Assistant - second degree. Mr. Danev is Chairman of the Managing Board and Executive Chairman of the Bulgarian Industrial Association.

##### 2. Mrs. Daneta Zheleva - Chief Executive Officer

Daneta Zheleva (37) joined the management team of IHB in September 1999 as a representative of Dia Expert EOOD - member of the SB. In July 2003 Mrs. Zheleva was elected member of MB and CEO. She has a 10 year experience as a lawyer in the Sofia Bar Association. She graduated law in Sofia University Kliment Ohridski. MLL in Law. Mrs. Zheleva is a member of the Managing Board of the Bulgarian Industrial Capital Association.

##### 3. Mr. Anguel Katzarov - Chief Executive Officer

Anguel Katzarov (63) joined the management team in July 2002. In July 2003 he was elected CEO of IHB. He has great

experience in business administration in the Ministry of Defense and General Staff of Bulgarian Army, as well as in commercial companies.

He graduated National Military University Vassil Levski in Veliko Tarnovo, with civil major mechanical engineering, Staff College Frunze in Moscow and General Staff College in Moscow. MSc in Engineering and Lt. General /ret./.

##### 4. Mr. Borislav Gavrilov

Borislav Gavrilov (29) joined the management team of IHB in July 2003. He has been working in IHB, Elprom ZEM and Alcomet before that. He has experience in business administration of commercial companies. He graduated economics in Hull University, Great Britain. Economist.

##### 5. Ambassador Boyko Noev

Boyko Noev (51) joined the management team in March 2003. He has rich experience in administration in government institutions - he has been member and deputy-head of the Bulgarian delegations to the CSCE and CFE Vienna negotiations and head of the European Organizations Department, Ambassador to NATO, Belgium and Luxembourg, Minister of Defense in Bulgaria. He graduated International Relations in Moscow Institute for International Relations. Ambassador Boyko Noev is Director of the European Program at the Center for the Study of Democracy.

## Corporate governance



- ☑ Prize of BSE-Sofia for the best issuer at information disclosure in 2004
- ☑ Nomination and 4th place for the best corporate governance amongst all public companies in Bulgaria
- ☑ New web site

### Evaluation of IHB Corporate Governance Program

After the audit conducted of the Corporate Governance Program /the Program/ and the activity of IHB, the conclusion may be drawn that the actions in 2004 in fulfillment of the tasks assigned, contribute to achieving the Program objectives. IHB management and personnel activities are directed towards establishing good corporate governance principles input in the Program.

IHB received a good evaluation of its corporate governance by the Investors' Association in Bulgaria. IHB was classified in the 4th place for the best corporate governance amongst all public companies in Bulgaria.

### Activities directed towards **protecting shareholders rights**

Two General Meetings of Shareholders were held in 2004. On March 6, 2004 /summoned on February 20, 2004/ General

Meeting of Shareholders passed a resolution for the issuance of convertible bonds and amendments in the Statute of the Company.

The regular annual General Meeting of Shareholders of IHB for reporting the year 2003 was summoned on June 1 but held on June 15 in compliance with the statutory provisions and within the legally established term.

In accordance with the principle for protecting shareholders rights, the Statute of IHB was amended at a General Meeting of Shareholders held in March 2004, the changes being related to the amendments of the Law on Public Offering of Securities with regard to the summoning and conduct of General Meetings of Shareholders, quorum at passing resolutions, sessions of the Supervisory and Managing Board, the manner of settlement of the interrelations of the Company with the members of the Boards, requirements to the members of the Boards, the procedure for adoption of the annual report and summoning of the regular annual General Meeting of Shareholders. The Rules for



the Operations of the Managing and Supervisory Boards were revised as well.

The members of the Managing and Supervisory Boards and the Company managers were briefed in due time about the new aspects in the legislation related to the governance of a public limited company.

#### Activities related to **disclosure of information and transparency**

In 2004 written guidelines and procedures for prohibition of distribution of insider information for the Company were developed. The guidelines were developed based on the experience gained in IHB and the best international practices in this area. The guidelines were adopted at a meeting of the Managing and Supervisory Board and were presented to all employees in IHB for getting acquainted with them.

In order to avoid insider information trading, information that could be disclosed and is considered inside information has been provided to the Bulgarian Stock Exchange - Sofia and the Financial Supervision Commission in the shortest terms possible.

In 2004, following its principles and traditions for transparency, IHB, the management and the Investor Relations Director have always been preparing and presenting information concerning the Holding activities within the required terms, complete and with maximum accuracy. The information provided includes periodic reports, changes in the Statute documents, the managing bodies and data about the activities, information about the conduct of the GMS and other price sensitive information. The information is provided to the Financial Supervision Commission, the Bulgarian Stock Exchange and other institutions.

Throughout the year, no penalties were imposed by the regulatory bodies, which is a good sign for the activities of the Holding with regard to disclosure. IHB obtained recognition of its disclosure and transparency policy from the Stock Exchange itself. IHB was awarded the prize of BSE - Sofia for the best issuer at disclosure of information in 2004 amongst all issuers, whose securities are traded on the BSE.

In 2004 IHB constantly provided information to its shareholders, the potential investors and the general public. During the past year an intensified interest in the Company was noted both by Bulgarian and foreign investors. The Investor Relations Department has always provided assistance to the shareholders with regard to the implementation of their rights as shareholders of the Company. Most often, the shareholders were interested in dividend payments, the procedure and manner for trade with shares, the conduct of GMS and information about the activities of the Company.

In fulfilment of the Corporate Governance Program and aimed at

better and successful communication with the investors, on October 27, 2004 IHB launched its new website. It is based on state-of-the-art technologies and tendencies in the web design and developed in accordance with the best international practices for corporate website of a public limited company. The website presents the overall activities of IHB as management, activities and portfolio. The news about IHB activities is presented in the section Press Center as press releases, interviews with the management and various publications.

The new section Investors is designated for the present and potential shareholders and bond holders of the Holding as well as analysts. There they may find topical information about the shares, bonds, the Statute of IHB, the General Meeting of Shareholders, the corporate governance program as well as topical financial calendar. IHB annual and the interim reports for 2004 may also be read in the Investors Section.

The new website is bilingual - in the Bulgarian and in the English languages.

#### Actions for the **provision of a mechanism for good corporate governance by the managing bodies**

The created procedure for calling and conducting the meetings of the managing bodies was adhered to in 2004 as well. The meetings were conducted regularly and all members were provided with the agenda and all the respective materials within term sufficient for getting acquainted with them prior to the meetings.

The minutes of meetings were kept duly according to the legal and internal regulations.

In 2004 the managing bodies of IHB held in total 32 sessions, inclusive of those of the Managing Board /MB/, which conducted 17 independent meetings, the Supervisory Board /SB/ - 7 independent meetings and the two boards jointly conducted 8 meetings. Said in another way the MB sat in session 25 times or on the average a little over twice a month and the SB - 15 times or a little over once a month.

It can be said in conclusion that after the analysis conducted, the evaluation of the Corporate Governance Program is sufficiently effective, corresponds to the international standards for good corporate governance and assists in the achievement of the corporate governance objectives of IHB. The management is of the opinion that it is not necessary to reevaluate and amend the Program.

## IHB Team



1. Georgi Yankov, IT Manager
2. Bogomila Hristova, Investor Relations Director
3. Eli Tuechka, Accountant
4. Toshka Vassileva, Chief Accountant
5. Boyanka Todorova, Accountant

6. Zlatomir Dimitrov, New Projects Director
7. Zlatka Ganeva, Office Manager
8. Galina Deneva, Expert Financial Analyses and Investment Projects
9. Nely Kercheva, Head of Financial Analyses and Investment Projects
10. Ivelin Georgiev, Construction Director

# CONSOLIDATED ANNUAL MANAGEMENT REPORT OF INDUSTRIAL HOLDING BULGARIA PLC in 2004

## Dear Shareholders,

Industrial Holding Bulgaria PLC /IHB/ added up another year to its history. 2004 was successful for IHB and we would like to present the results of the activity with pleasure.

The key results from activities for the Group in 2004 were:

- ✔ Consolidated income growth of IHB by 6% compared to 2003;
- ✔ Consolidated profit growth by 119% compared to 2003;
- ✔ Consolidated assets growth by 22% compared to 2003;
- ✔ Growth of consolidated net assets of 20% compared to 2003;
- ✔ Investments increase in branches of priority in consequence of portfolio restructuring;
- ✔ Better results of subsidiaries achieved with regard to the previous year in consequence of IHB's active participation in their strategic management and control;
- ✔ First issue of convertible bonds issued in the newest history of the Bulgarian capital market;
- ✔ Communication with investors improved by the new website of IHB.

The evaluation of the investment community was not delayed: As at the end of the year, IHB share price increased by about 5 times in relation to that at the beginning of the year. IHB shares turned into one of the most liquid positions at the Bulgarian Stock Exchange - Sofia /BSE/.

IHB was announced as the best issuer by BSE and it was awarded a prize for the most complete disclosure of information in 2004 amongst all issuers, whose securities are traded at the BSE.

## 1. Results from operations for 2004

IHB consolidated income for 2004 amounted to BGN 49 531 thousand and marked a growth of 6% compared to those in 2003. The income from operations amounted to BGN 47 988 thousand compared to 44 451 thousand in 2003 or a growth of 8%. They include:

- ✔ Income from sale of productions - BGN 35 566 thousand;
- ✔ Income from services rendered - BGN 11 929 thousand;
- ✔ Income from sale of goods and materials - BGN 493 thousand.

Other operating income on consolidated basis amounted to BGN 1 543 thousand and included net amortization of negative goodwill, income from sales of fixed assets and other revenue.

The net profit for 2004 added up to BGN 7 662 thousand and marks a growth of 119% compared to the profit for 2003. The growth is due predominantly to the increase of the Group profit from operations - by BGN 2 749 thousand and increase of the associated enterprises profit - by BGN 2 900 thousand.

The increase of the group companies profits is due to the increase of the income /by BGN 3 537 thousand in total for the group/ with relative preservation of the expenses.

## Results from IHB activities

### Portfolio restructuring

No serious modifications in the industries in IHB portfolio were undertaken in execution of the adopted strategy. Shipbuilding and repair, machine building, real estates, tourism /river cruises/ and production of furniture were and remain industries of priority.

There was a modification solely with regard to the industry structure of the investments in the portfolio. Essential investments were made in the companies from the shipbuilding and repair, as a result of which this industry occupied the biggest share in the investment portfolio as at the end of 2004 - 37.93%. The investments in the machine building represented 33.5% of the total investments followed by real estates with 11.39% and tourism with 11% of the investments.

### Increase of participation in some companies from the portfolio

In 2004 IHB did not invest in companies new for the portfolio. The investments were directed at increase of ownership in some of the companies.

The biggest investment of IHB in 2004 was the participation in the capital increase of Bulyard AD. The capital of the company was increased from BGN 50 thousand to BGN 24 019 thousand and IHB registering 5 992 245 new shares at the value of BGN 5 992 245. The remaining shareholders participated with the same amount in the capital increase, so the shareholding structure was preserved. With funds from the capital increase, Bulyard purchased 75% of the capital of Bulyard Shipbuilding Industry AD, Varna - a company, in which the assets of the former Varna Shipyard were contributed in-kind. The main activities of Bulyard Shipbuilding Industry are construction of ships and all kinds of vessels, repair and reconstruction of ships, trade with ships and trade representation.

IHB increased its holdings in Sano Maritime Holding AD - company in control of the Bulgarian Register of Shipping AD. IHB purchased 39%, simultaneously with them providing for selling 29% of them.

IHB purchased 250 thousand shares from the capital of ZMM Bulgaria Holding AD, in consequence of which the direct shareholding in the company's capital reached 99.998%.

In 2004 IHB increased its participation in Dunav Tours AD, Rousse. The two main shareholders - IHB and Union Tours, signed an agreement in writing to pursue a common policy for management of Dunav Tours. This resulted in rising the possibility for making a tender offer to the remaining shareholders of the company for purchasing their shares /the joint control was 90.02%/. The price of the tender offer was BGN 11 per share.

The tender offer passed successfully and thus IHB and Union Tours increased their participation by 2 064 shares or 0.43% each. By a Resolution of the General Meeting of Shareholders of Dunav Tours, the company was closed down and written off from the Public Companies Register.

IHB increased its participation in the Dockyard Port Bourgas AD by 0.16% as a result of which it already possesses 91.44% of the Company's capital.

The total amount of investments in corporate securities in 2004 added up to BGN 6 771 thousand.

### Sale of shares from the portfolio

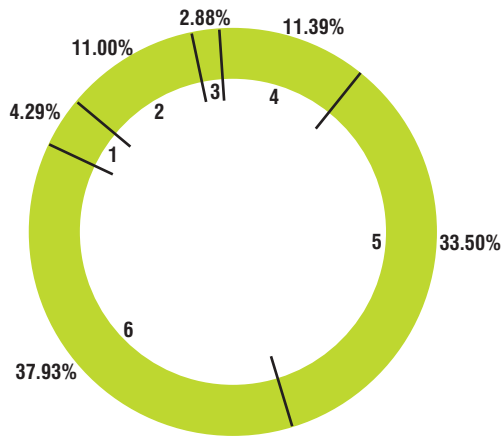
IHB sold 761 090 shares from the capital of Elprom ZEM AD (62.76 % of the company's capital) to ZMM Bulgaria Holding aimed at restructuring the portfolios within the IHB group.

In 2004 IHB sold all of its 3 206 shares of the capital of Sheraton Sofia Balkan AD and 7 667 shares of the capital of Dockyard Odessos AD.

The total proceeds from the sale of shares in 2004 amount to BGN 1 160 thousand. The net profit from sales of these shares was reflected in the revenue part of the financial report, which added up to BGN 197 thousand and represented a decrease of the same income in relation to 2003 by 17%.

As a result of the restructuring performed in 2004, as at December 31 2004 IHB portfolio directly and through affiliates was formed by 22 companies as follows: 9 subsidiaries, 3 associates, 7 subsidiaries of subsidiaries and associates and 3 portfolio investments. The direct investments of IHB in corporate securities as at the end of the year amount to BGN 24 964 thousand.

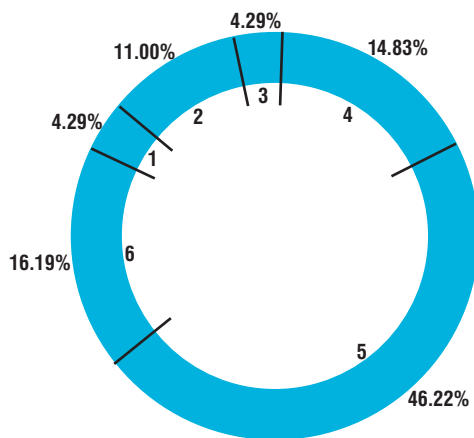
Graphs 1-3: Structure of the portfolio of IHB as at 31 December of the last 3 years



**2004**

investments total: **BGN 24 964 thousand**

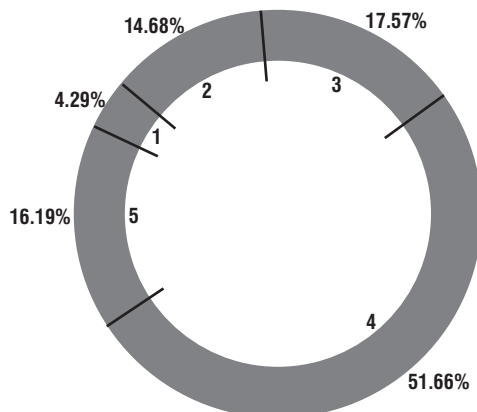
- 1. Furniture production
- 2. Tourism /river cruises/
- 3. Others
- 4. Real Estates
- 5. Machine Building
- 6. Shipbuilding and repair



**2003**

investments total: **BGN 19 178 thousand**

- 1. Furniture production
- 2. Tourism /river cruises/
- 3. Others
- 4. Real Estates
- 5. Machine Building
- 6. Shipbuilding and repair



**2002**

investments total: **BGN 18 412 thousand**

- 1. Furniture production
- 2. Tourism /river cruises/
- 3. Others
- 4. Machine Building
- 5. Shipbuilding and repair

## Management of subsidiaries

Following the tasks set up at the beginning of the year with regard to its subsidiaries, in 2004 IHB actively participated in the strategic business planning of the subsidiaries. IHB stimulated and rendered assistance with:

- ☑ Undertaking of investment measures in its subsidiaries;
- ☑ Improving of their products and services, developing and introducing new products and services, depending on the market requirements;
- ☑ Improving marketing, human resources and other management activities of the companies.
- ☑ Provision of financial funds for the operational and investment activities of the companies.

## Participation in the business planning process and control over achieved results

Realizing the significant role of the control in managing the subsidiaries, IHB management continued its practice for business planning and exercising control over the results.

At the beginning of the year, IHB management set up the strategic goals and results which each company had to achieve in 2004. Each CEO had assigned personal business task for the year in accordance with the priorities of the company.

IHB management and experts aspire after constantly being aware of the activities of the subsidiaries. Information is monthly exchanged, the companies presenting reports about their activities each month. A total of 4 working meetings are held between the Holding management and the relevant company managements during the year, at which the results for the past quarter are reported. The results of the time period under report are discussed at the meetings, the difficulties encountered by the company managements are shared, the possibilities for the problems solution are analyzed.

The dividend obtained at the profit allocation of the companies is a direct result of the subsidiaries management. The income from dividends in 2004 added up to BGN 684 thousand and marked a growth of 533% in relation to the same obtained in 2003. IHB management anticipates better results and respectively bigger profits of the subsidiaries in 2004, as a result of which an income increase from dividends in 2005 is expected. Another income source for IHB which is a result of the subsidiaries management was the income from services rendered. In 2004 it added up to BGN 673 thousand and also marked a growth in relation to 2003 of 318%.

## Rendering assistance for financing subsidiaries

The amount of BGN 4 636 thousand was granted to subsidiaries during the time period 01.01.2004 - 31.12.2004. The

income from interest rates under loans granted for 2004 added up to BGN 396 thousand and marked a decrease by 17.5% in relation to the same of 2003. IHB grants loans to its subsidiaries with an interest rate - the basic interest rate + 7 points.

IHB assists the financing of its subsidiaries also by providing for collaterals before the commercial banks. The collaterals are in the form of avals per promissory notes.

In 2004 IHB did not provide for new guarantees to subsidiaries before commercial banks in the form of avals per promissory notes. As at 31.12.2004 the collaterals provided by IHB for liabilities of subsidiaries added up to BGN 314 thousand and represented:

☑ Under loan granted to Augusta Mebel adding up to BGN 100 thousand, maturity date 25.02.2006.

☑ Under performance bonds, undertaken by Elprom ZEM to clients at the total value of BGN 214 thousand and with various maturity dates in the time period 2005 - 2008, depending on the term for the Contracts for execution with Elprom ZEM clients.

In 2004 IHB subsidiaries financed their activities with bank loans from CB Allianz Bulgaria AD, Bank DSK EAD, Reiffeisenbank (Bulgaria) AD, the United Bulgarian Bank AD and HVB Biochim AD.

IHB team rendered assistance with the subsidiaries business plans development required by the banks as justification for granting credits.

## Results from IHB group companies activities

### Shipbuilding and Repair

Bulyard AD and its subsidiary Bulyard-Shipbuilding Industry AD, Dockyard Port-Bourgas AD, Sano Maritime Holding AD and its subsidiary Bulgarian Register of Shipping AD.

Bulyard AD and its subsidiary Bulyard-Shipbuilding Industry AD, In 2004 the capital of Bulyard AD was increased from BGN 50 thousand to BGN 24 019 thousand. With the increased funds Bulyard purchased 75% of the capital of Bulyard-Shipbuilding Industry AD, Varna - a company, in which the former Varna Shipyard assets were in-kind contributed through the other shareholder Navigation Maritime Bulgare. With the signing of the joint-stock agreement Bulyard also obtained an option for the buyout of the residual 25% share, which may be exercised either at the expiration of the 3-year term or under the condition that the state share in the capital of Navigation Maritime Bulgare falls under 51%.



The activity of Bulyard Shipbuilding Industry in 2004 was in the following directions:

- ✔ Finishing works on the restructuring of a motor boat Bulmarket in liquefied gas carrier;
  - ✔ Finishing works on the fitting-out of Trapezitsa Project - ownership of Navigation Maritime Bulgare;
  - ✔ Carrying out of ship repairs of Bulgarian and foreign vessels.
- The new ships construction start-up requires the implementation of repair activities of some machines and facilities. The completion of the reconstruction of zero line in Body-Processing and Body-Assembly Workshop K-1 is of essential significance as well. The rehabilitation of assembly line is anticipated to be completed by the end of July 2005. The indicated repair and rehabilitation activities are of critical significance for the production process, aimed at processing sheet steel and making block-sections. The workmanship and assembly of working grounds for rectilinear and curvilinear sections is anticipated to take place in the workshop too. The horizontal and vertical presses commissioning and repairs of the welding apparatuses for manual and semi-automatic welding was planned as well. BGN 1 100 thousand were invested into the rehabilitation of the assembly and zero lines in 2004, the anticipations for 2005 being to invest another BGN 800 thousand. The 500-ton traveling gantry crane was commissioned in the Body-Berth Workshop K-2 and the crane runway is being repaired. The horizontal field joints automatic welding apparatuses will be repaired and introduced into production.

#### Bulyard AD

Income: In 2004 the Company income amounted to BGN 59 thousand.

Financial result: The Company closed the financial year at a loss of BGN 44 thousand in result of exchange differences.



#### Bulyard Shipbuilding Industry AD

Income: In 2004 the Company income amounted to BGN 16 933 thousand.

Financial result: The Company closed the 2004 balance with a net profit adding up to BGN 611 thousand.

#### Dockyard Port-Bourgas AD

The branch economic conjuncture in 2004 was unfavorable for the Company production capacity. The trade strategy was directed at the market share expansion of Dockyard Port - Bourgas AD with observation of competitive prices of the dockyard services.

In 2004 the Company managed to meet with success its actions of many years for the expansion of its activities - in March it obtained a statute of a public transport port of regional significance in conformity with the amendments in the Sea Areas, Internal Water Ways and Ports of the Republic of Bulgaria Act. In December 2004 Dockyard Port - Bourgas also obtained Operational Activities Certificate for a public transport port of regional significance from the Port Administration Executive Agency with the Ministry of Transport and Communications. The Certificate is for processing of general and broached cargos. In this manner further to ship repairs, Dockyard Port-Bourgas will also implement port activities - processing of general cargos, inclusive of loading and unloading activities, customs processing and storehouses under customs control. The preparation of the conditions for the implementation of port activities is progress - work is done under an expansion master plan.

In 2004 the Company investments were directed at the continuation of the class repairs of the dockyard main facility - the floating dock. The repairs of the administration building were completed.

Markets: In 2004 the Company worked in the direction of expansion of the existing and creation of new external markets, in spite of the adverse branch conjuncture. In 2004 the clients from the Middle East - Syria, Israel were predominant and the repairs were smaller, the prices being lower as compared with those attained at the European market, which was with a dominant share in 2003.

Income: 2004 is outlined as being more adverse as compared with 2003. The Dockyard Port-Bourgas activities income for 2004 amounted to BGN 2 994 thousand compared to BGN 3 586 thousand in 2003, i.e. it was reduced by 16,5%.

Financial result: Dockyard Port-Bourgas closed the 2004 balance with a profit after tax adding up to BGN 103 thousand, which is a growth of 27,2% compared to a profit of BGN 81 thousand in 2003.

Sano Maritime Holding AD and its 100% subsidiary Bulgarian Register of Shipping AD

The activity of Sano Maritime Holding AD is stated in management of its subsidiary Bulgarian Register of Shipping AD, whose activities are related to classification during the construction of new ships, ships in operation and ships under repairs, independent construction supervision in design and independent construction supervision in construction /after licensing/.

2004 was marked by the Company efforts to expand the services offered and the circle of clients attended. In November Marine Administration Executive Agency of the Republic of Bulgaria signed solely with the Bulgarian Register of Shipping a Contract for the award of ship inspections under the international conventions. The Bulgarian Register of Shipping Rules on Ships Classification and Construction were developed. The cooperation with Bureau Veritas is deepened after the Contract entered into with the Register in 2003. Work is done on the opening of representation office in the Middle and Far East. Income: The net income from the sales of the Bulgarian Register of Shipping for 2004 amounted to BGN 1 745 thousand and marked a growth of 19 % compared to the same in 2003.

Financial result: The Bulgarian Register of Shipping closed the 2004 balance with a profit after tax of BGN 435 thousand compared to a profit amounting to BGN 375 thousand for 2003.

## Machine Building

ZMM Bulgaria Holding AD and its subsidiaries ZMM Sliven PLC, Mashstroy PLC, ZMM Nova Zagora PLC, Leiarmach AD and Elprom ZEM PLC

In 2004 the Companies from the machine building industry in the Group reported growth in production compared to 2003. The growth for the individual companies is as follows: ZMM Sliven - 27.20%, Mashstroy - 16.14%, ZMM Nova Zagora - 41.13%; Leiarmach - 17.21% and Elprom ZEM - 6.90%.

In 2004 the devaluation of the USD exchange rate in relation to the European currency continued to exert negative impact over the Companies income. The continuation of the drop of the Dollar in 2004 resulted in a situation for smaller increase of the consolidated income from ZMM Bulgarian Holding main activities with a bigger growth of sales in kind.

The negative impact was mainly generated from the currency structure of the net income from sales - Mashstroy, whose sales in US currency add up to 70% of the Company income, ZMM Nova Zagora, where the share of the Dollar proceeds is 60% of the total realization and of ZMM Sliven - by 56% Dollar sales. At the same time the materials used for the workmanship of lathes are predominantly from import in EURO.

The international markets conjuncture, where ZMM Bulgaria Holding exports its machine building production, does not allow for current modification of the Dollar prices. In spite of that the management managed partially to re-negotiate increase of the prices on some of the markets, traditionally working in the US

currency. The preservation of the Dollar payments with its biggest clients on these markets turned out to be positive and unlike most other machine building companies ZMM Bulgaria Holding managed not solely to preserve its market positions but also to expand them at the expense of the competition. The increased demand of machines from these markets allowed for the production cycle effectiveness improvement, by which a part of the price reduced in result of the low dollar is compensated. Another protective measure against the changes in the US Dollar exchange rate is the negotiation of the sales in all European countries, where the Holding exports the production of its subsidiaries /exclusive of Turkey/ in EURO.

New investments in equipment and machines were made in the companies.

The income from sales and the financial result of each of the companies of ZMM Bulgaria Holding is indicated herein below.

### ZMM Bulgaria Holding

Income: In 2004 the Company income amounted to BGN 26 903 thousand compared to BGN 22 203 thousand during the previous year.

Financial result: The Company closed the 2004 balance with a net profit of BGN 682 thousand compared to BGN 726 thousand in 2003.

### ZMM Sliven

Income: In 2004 the net Company income from sales amounted to BGN 15 176 thousand compared to BGN 11 931 thousand in 2003.

Financial result: The Company closed the 2004 balance with a net profit amounting to BGN 212 thousand compared to the financial result after tax of BGN 50 thousand in 2003.



#### Mashstroy

Income: In 2004 the Company income amounted to BGN 12 116 thousand compared to BGN 10 432 thousand during the previous year.

Financial result: The Company closed the 2004 balance with a positive result amounting to BGN 236 thousand compared to a loss of BGN 108 thousand in 2003.

#### ZMM Nova Zagora

Income: In 2004 the Company income amounted to BGN 3 263 thousand compared to BGN 2 312 thousand during the previous year.

Financial result: The Company closed the 2004 balance with a loss amounting to BGN 22 thousand compared to a negative financial result of BGN 379 thousand in 2003.

#### Leiarmach

Income: In 2004 the Company income amounted to BGN 3 222 thousand compared to BGN 2 749 thousand during the previous year.

Financial result: The Company closed the 2004 balance with a loss amounting to BGN 5 thousand compared to a profit of BGN 61 thousand in 2003.

#### Elprom ZEM PLC

A number of measures were undertaken in Elprom ZEM in 2004 aimed at the creation of strong and reduction of the weak sides of the Company. The most important of them are:

- ✔ Active actions for making use of the advantages of the Company with regard to the implementation of repair activities of the stator packages of water-wheel generators - the repair activities for re-mixing of the stator package of Hydro-Electric Power Plant Aleco and Hydro-Electric Power Plant Momina Klisura are completed for the time period. The rehabilitation of Hydro-Electric Power Plant Peshtera, Belmeken and Ivaylovgrad was started up as well.

- ✔ Negotiations with foreign companies (General Electric - USA, VA TECH - Austria, Mecamidi - France) aimed at Elprom ZEM turning into their permanent subcontractor.

In 2004 a Contract was signed with VA TECH - Austria for the implementation of a part of the activities on the construction of Tsankov Kamuk cascade.

- ✔ Active marketing actions for the expansion of the market positions of the Company - Elprom ZEM manufactured 3 nos. of asynchronous generators for Retige Hydro-Electric Power Plant.

- ✔ Replacement of facilities for the provision of the technological need of the production of steam and compressed air

- ✔ A number of measures were undertaken for the personnel management.

Income: The income from the sales of Elprom ZEM for 2004 amounted to BGN 4 572 thousand and marked a growth of 6.09 % compared to the same in 2003.

Financial result: Elprom ZEM closed the 2004 balance with a profit prior to tax of BGN 68 thousand and a loss after tax of BGN 15 thousand compared to a gross profit of BGN 216 thousand and net - BGN 162 thousand for 2003.

#### Chimremonstroy AD

The product offered by Chimremontstroy AD in the last few years had involved:

- ✔ Design, construction and installation works on the building up of new Projects in the chemical, metallurgical industry and energetics;

- ✔ reconstruction, modernization and repairs of production capacities and technological lines in the oil chemical, chemical, metallurgical, cellulose-paper industry and energetics;

- ✔ construction of Projects from the municipal infrastructure;

- ✔ production and installation of non-standard equipment and metal structures;

- ✔ production of centrifugally cast articles;

- ✔ furnace construction and mechanical installation works and others;

In 2004 no essential modification in the product structure took place. The year differed from the previous one with regard to the absence of a big Project of the sort of the Non-Ferrous Metals Integrated Works AD, Plovdiv. The Company continued to develop its main activity in the sphere of design, construction and repairs of Projects in the chemical, metallurgical industry, energetics and infrastructure. Chimremontstroy works predominantly on the Bulgarian market, but a part of its clients are foreign investors - Umicor Med, Sofia Med, Steel Industry, FEI - Japan, Alstom Power, Jacobsen Electro. The Company implements Projects in almost all the country regions - Sofia, Bourgas, Devnya, Stara Zagora, Dimitrograd, Vratsa, Svishtov, Plovdiv, Plevan and Vidin. Measures were undertaken for the restructuring of the activities of the Chimremontstroy companies group, inclusive of fixed tangible assets sale and liquidation, with reduction of the expenditures to a minimum and optimization of the financial flows.

Income: The consolidated income from the sales of Chimremontstroy for 2004 amounted to BGN 15 698 thousand compared to BGN 14 697 thousand of sales for 2003. The net income growth of 6,8% is due to the improved marketing policy and the attraction of new clients as Alstom Power and Jacobsen Electro.

Financial result: The Chimremontstroy consolidated financial result for 2004 is a profit amounting to BGN 118 thousand with a loss for 2003 totaling up to BGN 344 thousand. The negative exchange differences under two Contracts (FEI and Umicor) entered into in US Dollars exerted a negative impact over the amount of the financial result.



## Real Estates Operations

### Privat Engineering AD

In 2004 Privat Engineering AD commenced the development of a Project for the construction of a resort village Kolokita, which will be built up on own terrain of about 100 decares, located on the picturesque Cape of Kolokita - a part of Budgaka Peninsula, south of the town of Sozopol, in the immediate proximity of the well-known within the region Paradise Bay. In 2004 work was done on the development and approval of the architectural design for the resort village.

In 2004 the pre-design investigations were implemented and the sewerage connection for the resort village was designed.

Simultaneously with that meetings were held with potential foreign and Bulgarian investors for residences in the resort village aimed at research of the attitudes and wishes to be reflected in the design.

Income: The Company marked a growth of the income in relation to 2003 amounting to 188 %, the net income from sales growing from BGN 863 thousand for 2003 to BGN 2 490 thousand for 2004. The main of the Company income was from re-insurance and insurance activities as well as from consultancy services.

Financial result: Privat Engineering closed the 2004 balance with a profit of BGN 1 339 thousand compared to a profit totaling up to BGN 887 thousand for 2003.

### KLVK AD

In 2004 the Company purchased 75% shares from a real estate adding up to 94 decares, located in Shkorpilovsti resort complex - Izgrev Horizont at the value of USD 2 009 250. The financing of the transaction was carried out through a loan of BGN 3 532 thousand granted by IHB to the subsidiary, and the funds were raised fully through the emission of corporate convertible bonds. The estate was purchased with an investment purpose. KLVK sold it during the month of April 2005 and refunded the funds to IHB.

Income: The income of the sales of KLVK for 2004 amounted to BGN 148 thousand compared to BGN 42 thousand for 2003.

Financial result: KLVK closed the 2004 balance with a loss of BGN 10 thousand compared to a profit of BGN 3 thousand for 2003.

## Tourism /River Cruises/

### Dunav Tours AD

The main operations of the Company are related to the maintenance and exploitation of the two own renovated three-star passenger ships Rouse and Sofia, tour operator and agent activities. Through its subsidiary Tourist Company Dunav AD, Dunav Tours invested in the construction of a new ship Rouse Prestige, which was commissioned on 18.03.2004. The new navigation vessel is with a four-star class for cruises along the

canal system of the Rhine, Main and Danube rivers. The funds for building the ship adding up to Euro 10 million were provided with a credit from Reiffeisenbank (Bulgaria) and own funds of Dunav Tours.

Undertaking the exploitation of the new passenger ship, Dunav Tours anticipates the expansion of its activity without changing its main nature. The goal of the Company is further to expand its market share in the European river cruises, to supplement the market niche in the Bulgarian tourist market and to commence to apply cruises along the Danube River for Bulgarian tourists as well. The first season of the river ship was successful. The Company has its own pontoon in the water area and regulation of the town of Rouse. The pontoon is convenient and is located in the proximity of the town center. Dunav Tours is in possession of a Tourist Services Agency as well, Dunav Tours Hotels, which sells excursions in the country and abroad, airplane, bus tickets and others.

Markets: The main market for the Company is the European market. Its ships fly the route: Budapest - Vienna - Passau and back and since 2004 through the new ship also along the channel system of the Rhine, Main and Danube Rivers. In 2004 Rouse Prestige ship berthed on Rouse river port. For over 10 years the motor ships of the Company have not got down into the lower course of the Danube River.

Income: The consolidated income from sales of Dunav Tours for 2004 amounted to BGN 8 645 thousand, which is an increase by 93,6% compared to the same in 2003.

Financial result: The consolidated financial result after tax of Dunav Tours for 2004 is a profit of BGN 318 thousand compared to BGN 33 thousand for 2003.



## Production of Furniture

### Avgusta Mebel AD

The tendency in the modern furniture production - in the design and fashion of modern furniture - changes very fast and as a result the life cycle of the main products of the Company is relatively short. In the last few years Avgusta Mebel fully re-structured its markets and almost completely changed the nomenclature of the articles offered. The development of new markets for the Company is a permanent process: annually over 70% of the manufactured production are new articles - both the applied technologies and input materials and the design of the articles are updated. The attracted new clients from the countries of the EU replaced the markets of the former CIS - Russia, Georgia, Azerbaijan, Uzbekistan and others. Significant clients for the Company in the last 2 years have been the companies La Redutte - France, Mamas&Papas - England, Gillos - Greece, Nimi- Israel, Sasi fashion - an intermediary for OTTO, Twentyi - Denmark and others. The decrease of the equivalence in Bulgarian leva of the US Dollars and the British pound exerted a negative impact over the income from sales - a drop of the sales for the USA was reported as well as a decrease in the profitability of the articles designated for Great Britain. Measures were undertaken to overcome the negative impact of the exchange rates - re-negotiation of the sale prices for Great Britain, negotiation of some of the export prices for the USA in Bulgarian leva, regardless of the exchange rate. On the other hand, the low USD exchange rate determined some changes in the raw materials and materials markets. Business contacts were established with Turkish companies, whose products are nominated in USD. Another significant factor of influence over the income volume during the past year was the enhanced demand of hotel furnishing on the domestic market in connection with the enhanced branch investment activity. The production of home and hotel furnishing laminated fiber board furniture at a lower price class commenced with the purchase of the new equipment for tailoring laminated fiber board in 2004. The goal is the offer of products with more competitive prices on the domestic market. In the last two years Avgusta Mebel managed to impose itself on the intensely competitive and unforeseeable market in the country. The main client in our country is Interservice Uzunovi Company. The anticipations are for regular and bigger in volume orders and respectively for fuller and balanced loading of the technological solid wood and veneered fiber board furniture production lines. Orders of other products made of veneered fiber board on the basis of the manufactured and supplied hotel furnishing samples are anticipated as well.

Markets: Traditionally the Company works for export, the share of the production realized on the foreign market in 2004 being 74 %. Income: The income from sales of Avgusta Mebel for 2004 amounted to BGN 3 054 thousand and marked a growth of 19 % compared to the same in 2003. Financial result: Avgusta Mebel closed the 2004 balance with a profit after tax of BGN 223 thousand compared to a loss of BGN 31 thousand for 2003.

## Others

### Hydro Power Bulgaria AD

The activities of the Company in 2004 were characterized by research of the possibilities for the electric power production from renewable energy sources on the territory of the Republic of Bulgaria aimed at their exploitation. No Project was started up during the year owing to the absence of appropriate possibilities.

Income: In 2004 the Company rendered consultancy services and the income realized from the activity amounted to BGN 24 thousand compared to BGN 16 thousand for 2003.

Financial result: Hydro Power Bulgaria closed the 2004 balance with a profit of BGN 2 thousand compared to a loss of BGN 10 thousand for 2003.

### International Industrial Holding Bulgaria AG

In 2004 the main sources of income for the Company were dividends from investments in shares.

Income: The income from operations of International Industrial Holding Bulgaria for 2004 amounted to BGN 2 359 thousand compared to BGN 404 thousand in 2003.

Financial result: International Industrial Holding Bulgaria closed the 2004 balance with a profit of BGN 2 344 thousand BGN compared to BGN 385 thousand in 2003.

### Personnel

As at 31.12.2004 in IHB there were 10 employees in total, from whom persons hired with higher education composed 70% of the total number. The qualification of the employees with higher education is as follows: economists - 6 and engineers - 1. The average number of personnel for 2004 in IHB Group is 1817 persons. This number includes solely the subsidiaries and it does not include the associated companies, which another 1370 persons work in.

### Events, improving the corporate culture of IHB

In 2004 the tradition of organizing Annual Sport Events for the Holding and its companies was continued. In autumn Autumn Sport Event 2004 for summer sports was held in the town of Hisarya. Representatives of all the companies participated in the events and it was confirmed that this was a good manner for strengthening the corporate culture, maintaining a competitive spirit, competitiveness and simultaneously sense of team belonging amongst the IHB companies.

In 2004 a "Director of the Year" and an "Employee of the Year" of each of the companies and the Holding were selected and rewarded within the IHB Group for the third consecutive year. Mr. Lilyan Lazarov - Executive Director of Dunav Tours was selected as the Director of the Year for the successfully implemented in 2004 biggest investment Project within the IHB Group - the new river vessel Rousse Prestige at the value of EURO 10 million for tourist cruises along the Danube River.



## 2. Liquidity

In 2004 IHB satisfied its needs for the provision of the expenditures for its activities with own funds from income from investments, dividends, interest rates with regard to interest bearing receivables from subsidiaries and other companies with deferred payments due from contracts for sales of shares and income from interest on deposits, income from services rendered and others.

The generated cash flows were sufficient and IHB did not face a lack of financial resources for its current activities.

To provide for its investment policy, in 2004 IHB used attracted funds for the first time in its history. IHB entered into a Bank Loan Contract with DSK Bank EAD of USD 2 million. IHB issued an issue of convertible bonds amounting to BGN 5 250 808. The attracted funds are used for investments and are described in greater detail in the Capital Resources item.

The IHB Group subsidiaries satisfied their needs for the provision of the expenditure with own funds from their activities, advance payments from clients, bank loans mainly for circulating means and loans and/or collaterals for guarantees provided for by IHB.

### Liquidity sources for IHB in 2005

#### Internal sources

As at 31.12.2004 the IHB Group available financial funds amounted BGN 8 103 thousand compared to BGN 5 372 thousand at the beginning of the year. The big cash available stocks as at the end of the year under report are a result predominantly

of the funds raised under the bond issue and the better financial results of IHB and the subsidiaries reported in 2004. Investment Projects of the Holding will be financed with them in 2005.

As at 31.12.2004 the IHB Group receivables amounted to BGN 5 408 and represented:

- ▣ long-term receivables of BGN 1 282 thousand, representing mainly receivables for deferred payments under contracts for the sales of shares;

- ▣ trade and other receivables of BGN 4 126 thousand, representing mainly trade receivables, taxes receivables and others. Improvement of the IHB liquidity is anticipated in 2005.

The writing off of the dividend related liability will help the improvement of the liquidity. IHB stopped payment of unpaid and uncalled-for dividends for 1997, counted from 1 March 2005 owing to the expiration of the 5-year prescription term. As at 31.12.2004 the liability amounted to BGN 1 323 thousand. The income from operations with investments is a relatively inconstant source of liquidity owing to the fact that sale of shares is made depending on the market situation and the availability of demand. At the beginning of 2005 IHB sold its shares of the capital of Dockyard Odesos representing 17.05%, making use of the favorable market situation for this item. The weighted average sale price of a share is BGN 76. The profit from the sale of these shares amounting to BGN 6 780 thousand shall considerably increase the income from operations with investments compared to the same in 2004.

An increase of the income from dividends is anticipated in 2005 owing to the good results of the subsidiaries in 2004.

The income from services and the income from interest under loans granted to subsidiaries are anticipated to decrease compared to the same amounts as in 2004.

#### External sources

IHB does not plan use of attracted funds in 2005, except in cases of need of financing subsidiaries projects and in case of utilization of the option for buyout the remaining 25% of Bulyard - Shipbuilding Industry shares which are ownership of the Navigation Maritime Bulgare /described in detail in the item Expected Company's Future Development/.

The subsidiaries do not plan any essential changes in the use of attracted funds as are needed for the implementation of their main activities - mainly bank loans for circulating means.



### 3. Capital resources

#### ☑ The first issue of convertible bonds in Bulgaria

IHB used lending funds for the first time in its history in 2004. IHB decided to use one of the state-of-the-art manners of financing offered by the capital market and issued convertible bonds. The advantages of this kind of financing are:

- ☑ The comparatively low expenses under the issue /0.70% of the amount of the issue/,
- ☑ Low interest rate /6% per year/ payable twice a year,
- ☑ Lack of collateral,
- ☑ Payment of the principal at the end of the time period /in this case 3 years/.

This is the first and sole up to now issue of convertible bonds in the newest history of the capital market in Bulgaria.

At the beginning of the year on 6 March 2004 the General Meeting of Shareholders passed a resolution for IHB to issue convertible bonds. From that time on the process of issuing the bond issue started. The issue was made through public offering and issuance of rights to registration of the convertible bonds of IHB shareholders as at 20.03.2004. /14 days after the date of the resolution of the General Meeting of Shareholders/.

After the term defined for the exercise of the rights, trade with the rights and registration of the bonds, on 2.07.2004 subscription list for registration of bonds was successfully completed and the bond loan was concluded.

13 natural and legal persons registered the bonds. 7 of them are current shareholders of IHB and the remaining have acquired rights for participation in the issue.

The biggest shareholder of IHB Venside Enterprises Limited exercised its rights to participation to a maximal degree.

The parameters of the convertible bonds issue are as follows:

Total number of bonds: 5 250 805;

Total nominal value: BGN 5 250 805;

Nominal and issue value: 1 BGN;

Date of conclusion of the bond loan: 2.07.2004;

Maturity date: 2.07.2007;

Interest rate: 6% annually, payable per 6 months;

Scheme of interest payments: 25.01.2005, 25.07.2005, 25.01.2006, 25.07.2006, 25.01.2007 and 2.07.2007.

Redemption of the bond loan: a single time at maturity through payment of the principal or through conversion of the bonds into shares.

Conversion conditions: A General Meeting of Shareholders shall be convened at the proposal of the IHB Managing Board 1 month prior to the date of the issue maturity. This General Meeting of Shareholders shall pass a resolution for the making of a proposal to the bond holders to convert the bonds into shares of IHB, as well as under what conditions the conversion may be performed.

The conversion of the bonds is a right and not an obligation.

The bond holders shall decide by themselves whether they will

convert their bonds or not.

On 17 August 2004 the convertible bonds issued by IHB were registered for trade on the BSE bonds official market.

The funds raised under the issue were used for investments in the sphere of the real estates and shipbuilding and repair. IHB granted BGN 3 532 thousand to KLVK AD for the purchase of a real estate - 94 deceres located in the resort complex of Shkorpilovtzi - Izgrev Horizont. KLVK acquired 75% shares of the estate at the value of USD 2 009 250. The acquisition of the estate is with an investment purpose. The remaining part was used for the investment of IHB in the increase of the capital of Bulyard.

The first General Meeting of Bond Holders /GABH/ of IHB convertible bonds was held on 30.08.2004. 74.20% of the bond holders were represented at the meeting. In conformity with the preliminarily announced agenda, the General Meeting of Bond Holders elected Mr. Strahil Vidinov as a representative of the bond holders and determined remuneration adding up to the minimal base-pay for the country.

During February 2004 IHB concluded a Bank Loan Contract with the DSK Bank for USD 2 million. The loan was granted for a term of 3 years, with a six-month gratis period and an interest rate of six-month LIBOR in USD + 3.5 points. The collateral provided for under the loan is pledge of enterprise Dockyard Port-Bourgas and promissory note at the value of 475 thousand USD, which note was availed by ZMM Bulgaria Holding. The funds were used for financing a part of the investment of IHB in the capital of Bulyard in total at the amount of BGN 5 992 thousand.

#### Information about the essential commitment of IHB for the incurring of capital outlay

As at 31.12.2004 IHB did not have any essential commitments for incurring capital outlay. In spite of this, at the beginning of 2005 IHB increased its participation in Bulyard by purchasing 2 762 183 shares, representing 11.5 % of the Bulyard capital for BGN 4 113. With this IHB participation in Bulyard reached 36.5 %. The investment was made with own funds and a part of the funds of the bond loan.

Capital outlay may be incurred in case of need of financing projects of subsidiaries and in case of utilization of the buyout option for the remaining 25% of the Bulyard - Shipbuilding Industry shares, which are ownership of the Navigation Maritime Bulgare EAD /described in detail in the item Expected Future Development of the Company/.

The capital or the net assets of IHB Group as at 31.12.2004 was BGN 47 317 thousand and it grew up by BGN 8 038 thousand or by 20%. The increase is due mainly to the increase of the retained earnings /net/. As at 31.12.2004 the retained earnings /net/ for the group amounted to BGN 14 417 thousand.

The total liabilities of IHB Group as at 31.12.2004 amounted to BGN 24 381 thousand and increased by BGN 6 963 thousand or by 40% compared to the same as at 31.12.2003. The liabilities consist of: BGN 5 221 thousand of IHB debenture loan, interest-bearing loans and borrowings of BGN 5 077 thousand, BGN 10 854 thousand of trade and other payables, BGN 1 551 thousand of provisions and BGN 1 541 thousand of deferred tax liabilities. As far as the term is concerned, the structure of the liabilities is as follows: the non-current liabilities amount to BGN 10 364 thousand, and the current liabilities - to BGN 14 017 thousand.

## 4. Important events that occurred after the annual accounting balance

The following events took place after the date of issuing of the 2004 financial report:

On 21.02.2005 IHB acquired another 2 762 183 nos. of shares, representing 11.5% of the Bulyard capital, and in April it additionally purchased 3 602 9847 nos. of shares, representing 15% of the company shares, for which it invested a total of BGN 8 275 thousand and thus increased its participation in Bulyard's capital by 51,5%. The latter is in possession of 75% of the capital of Bulyard Shipbuilding Industry AD.

At the beginning of 2005 IHB sold all the shares possessed in Dockyard Odesos and realized a profit of BGN 6,780 thousand.

From 1 February BSE - Sofia started a new index BG40. The index was formed by the weighted average prices of the shares of the 40 most liquid companies traded at the stock exchange. IHB was at the top of the list of the most liquid public limited companies following by Doverie OH, Sinergon Holding, Albena Invest Holding and the Bulgarian Holding Company.

Since March 2005 IHB shares have been traded at segment A on the official market of the Bulgarian Stock Exchange - Sofia.

On the grounds of Art. 110 of the Obligations and Contracts Act the prescription term for the payment of the dividend for 1997, distributed by IHB has expired on 28.05.2003. Therefore IHB stops the payment of the dividend for 1997 counted from 1.03.2005. The hand-over of the depository receipts will continue to be effected by CB Allianz Bulgaria at the address city Sofia, 79, Maria Louisa Blvd. The unpaid part of the dividends as at 1 March 2005 amounting to BGN 1,323 thousand by resolution of the Managing Board of the Company were written off and transferred to the reserves of the Company.

In March 2005 the management of IHB passed a resolution for the participation in Odesos PMB AD, Varna with activities rendering of port services and associated activities from / to ves-

sels and land transport motorcar vehicles and a capital of BGN 5 280 thousand, the amount from the Company participation being 30%. The Company has a license for a port of regional significance.

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

The estate acquired by the subsidiary KLVK in the Shkorpilovsti resort complex at a balance value of BGN 3,465 thousand has been sold out.

In May 2005 Bulyard Shipbuilding Industry entered into a Contract with the Shipping Company Navigation Maritime Bulgare AD for construction of 3 ships at the total value of EURO 58,5 million with a term of execution of 20-21 months.

## 5. Important scientific research and development

IHB did not conduct any significant scientific research and development activities during 2004.

## 6. Expected future development of the Company

- ☑ Increase of investments in shipbuilding and repair
- ☑ Expansion of the activities in the sphere of port business
- ☑ Preparation for construction of a new vessel for river cruises
- ☑ Start-up of the construction of Kolokita Holiday Village

### Main tendencies of IHB activities

The main tendencies of the Holding activities during the next few years are also anticipated to be related to:

- ☑ Acquisition, evaluation and sale of shares in other companies;
- ☑ Management of controlled (directly or through affiliates) companies from the portfolio;
- ☑ Establishment of new companies;
- ☑ Investments in companies from the portfolio of long-term interest to IHB;
- ☑ Providing financing to companies in which IHB owns shares.

The main IHB strategic interests are in the industries of shipbuilding and repair, machine building, real estates, tourism /river cruises/ and they will remain of priority for the year 2005 as well.

### Plans of essential significance related to the activities of IHB

- ☑ Increase of investments in shipbuilding and repair

At the beginning of 2005 IHB increased its participation in Bulyard, in possession of 75% of Bulyard Shipbuilding Industry to 51.5 %. With this investment the share of the shipbuilding and repair industry in IHB portfolio was increased to 51%. The shareholding agreement signed between Bulyard and Navigation Maritime Bulgare at the establishment of Bulyard - Shipbuilding Industry stipulates that Bulyard should acquire through a buyout option under certain conditions the remaining 25% of the shares of Bulyard - Shipbuilding Industry, which are ownership of Navigation Maritime Bulgare. It is not clear as at this time whether this option will be exercised.

✚ Expansion of the activity in the sphere of the port business  
In December 2004 Dockyard Port-Bourgas, a subsidiary of IHB obtained an Operational Activity Certificate for a public transport port of regional significance by the Port Administration Executive Agency with the Ministry of Transport. The Certificate is for processing of general and draft cargos. In this manner the company expands its activities - further to shipbuilding, Dockyard Port-Bourgas will also implement port activities. Dockyard Port-Bourgas will perform processing of general cargos, inclusive of loading and unloading activities, customs treatment and storehouses under customs control.

✚ Preparation for the construction of a new river cruise ship  
IHB pursues a consistent policy for the expansion of its portion in the tourism /river cruises/ by increasing the existing investments.

After participation in the privatization of 80% of Dunav Tours, the investors IHB and Union Tours undertook measures for the increase of the company's market share and its subsidiaries through exploiting a market segment unused before. In the middle of March 2004 a new ship started cruises on the canal system of the rivers Rhine, Mein and Danube. The funds for building the ship EURO 10 million were provided with a credit from Reiffeisenbank (Bulgaria) and own funds of Dunav Tours. The first season of the new vessel was successful. The Company operates with another two motor ships of its own, which were fully renovated. Passengers' journeys were agreed for the three ships out of season of the year 2005. The conditions are prepared for the construction of a new, fourth luxurious 4-star ship of the latest generation with possibilities for bigger mobility and for inclusion in the chain of the internal water ways of Europe. The Company aims at increasing the Bulgarian share in the European river tourism market through the two new ships.

✚ Start-up of the construction of Kolokita Holiday Village  
The preliminary architectural design is being developed as at this time, anticipating that the complex will include about 300 residential units - one-family and ordinary houses, penthouses and apartments, which are planned to be offered for sale. Privat Engineering will manage the infrastructure and the servicing

sites, including: a trade-administration building with a pizzeria, a fast food establishment, a mini-market, a laundry room, a pharmacy, a post-office, an Internet club, sale of newspapers, magazines, household articles, a hairdresser's and others, tennis courts with a coffee bar, 2 restaurants, 3 swimming-pools, a fitness hall, a small monastery complex with a chapel, covered and uncovered parking lots, green areas, road and lane network. The construction activities for the building up of the settlement are anticipated to commence during the month of May 2005. The pre-project research and designed external sewerage connection for the holiday village were implemented in 2004 as well. The design for the sewerage construction started up at the beginning of 2005 and is implemented with the support of the Municipality of Sozopol, which is the construction Employer. The capacity of the facility, financed by the Holding, allows for the inclusion of all the estate owners along the route of the facility in the sewerage under conditions and in conformity with a procedure coordinated between the Investor Privat Engineering and the Municipality. The facility will be executed with state-of-the-art materials, guaranteeing its quality and high operational characteristics, according to technologies recommended by the manufacturers of the input materials and by means of state-of-the-art equipment provided for by the construction Contractor - Vodocanalstroy LTD, town of Bourgas. The independent design supervision and facility construction was assigned to another company leading in its sphere - Vasstroy Consult LTD, town of Bourgas.

The investments made so far under Kolokita Holiday Village Project were financed through a loan granted to Privat Engineering in 2003 for the purchase of the terrain and a loan in 2004, granted by IHB to the Company for the hereinabove described activities. The main financing of the Project is forthcoming in the late middle of 2005, when the construction of the holiday village will start-up and will continue during the next two years until its completion. A part of the needed funds was raised through the issue of corporate convertible bonds in 2004 and are available as IHB bank deposits, and the remaining funds will be own of Privat Engineering from the sale of individual residences.

## 7. Changes in the share price of the Company

- ✚ 480% share price growth
- ✚ IHB is the most liquid company at BSE in 2004.

As at 31.12.2004 all the 21 003 235 registered dematerialized voting shares of the Company were registered for secondary trade on the official market segment C of the Bulgarian Stock Exchange - Sofia AD.

In 2004 the IHB share price marked a notable leap - from BGN 0.39 to BGN 2.26 per share at the end of the year. This is due

most of all to the Bulgarian capital market development - an increase of the liquidity of BSE, growth of the share prices of a great part of the positions traded on the stock exchange, an increase of the investors - Bulgarian and foreign. The active trade tendency was also preserved at the beginning of 2005, when the IHB share price reached its maximum of BGN 4.19 per share.

In 2004, the data about the trade with IHB shares were as follows:

Statistics for the period 01.01.2004 - 31.12.2004 /data from BSE - Sofia/

	Value	Date
Opening price (BGN)	0.39	2004-01-05
Closing price (BGN)	2.26	2004-12-29
Maximum price (BGN)	2.50	2004-12-07
Minimum price (BGN)	0.28	2004-07-26 and 27
Average weighted price (BGN)	0.90	
Percentage change	480.00%	
Value change (BGN)	1.87	
Number of transactions in 2004	4 452 transactions	
Trade volume in 2004 (number of shares)	3 396 641	

Graph of the share price in the period 01.01.2004 - 31.12.2004

