

IHB
OPERATING
REVIEW

CEO'S LETTER

Dear shareholders,



2006 was another year of success for Industrial Holding Bulgaria /IHB/ group and there are several significant achievements that are especially important for its performance and future development:

- The growth of income from sales exceeded substantially the growth of the gross domestic product of Bulgaria;
- Despite the extremely high trade deficit of the country (above 95%) the IHB group reported dominating export levels which reveals competitiveness and minimal dependency on the country market;
- The IHB share price growth exceeds the growth of SOFIX and BG 40 indexes, and as of 1 January 2007 the IHB shares were included in some of the Dow Jones indexes and the SOFIX index.

Of course, there exist certain risks that may influence the IHB group's performance:

- In the first place the demographic collapse and the lack of experienced workers - difficult import of skilled workforce from neighboring non-EU member states compared to the high mobility within the EU;
- Insufficient modernization and renewal of the existing facilities, quite limited investments for research and development;
- Serious increase of the energy prices.

IHB being one of the big industrial groups in Bulgaria systematically and purposefully develops its priority industries such as machine building, shipbuilding, sea transport and river cruises and strives to be the leader in the markets where it operates. We consider these fields as strategic and determinant not only for our group, but also for Bulgaria.

In 2007 some specific projects connected with our vision for development over the next several years shall mark the strategic priorities in the investment program and the managerial efforts of the Group:

- Expansion and modernization of the port infrastructure of Dockyard Port-Bourgas which will contribute for making the port regional leader in the processing of general and bulk cargoes;
- Building of new ships for the IHB group: In 2008 we expect the commissioning of the two 9 800 dwt multi-purpose ships for bulk cargo Emona and Marciana, built in Bulyard Shipbuilding Industry, while in 2007 at least two more ships will be ordered to be delivered in 2009 and 2010;
- Increasing the productivity of Bulyard Shipbuilding Industry, which will, to a great extent, allow us to take advantage of the favourable market conditions for new ships construction;
- Active participation of companies in the offset programs related to the projects for development and modernization of the Bulgarian Army;
- Introduction of Internal Audit of the Group.

The efforts of our team during 2007 are aimed at the achievement of over 20% growth of the sales income, profit exceeding BGN 13 million and maintaining a leadership position among the industrial groups on the Bulgarian Stock Exchange - Sofia both regarding the liquidity and the market capitalisation.

Of course, in order to achieve such development we shall need the efforts both of management and employees. That is why, I would like to thank all of them not only for their professional attitude but also for the fact that they work so dedicatedly in this strongly competitive environment and sharing the values of IHB permanently contribute for the success of the group. We also expect to be supported by our shareholders since the serious investment program which we started to realize pre-supposes substantial financial resources. For this process IHB will rely upon profits generated by subsidiaries, bank loans and increase of the capital.

I truly believe that based on our team spirit and innovative ideas we shall manage to keep and even significantly improve IHB's market position and strong financial performance.

Daneta Zheljeva

CONSOLIDATED ANNUAL MANAGEMENT REPORT OF INDUSTRIAL HOLDING BULGARIA PLC FOR 2006

Dear Shareholders,

In 2006 Industrial Holding Bulgaria PIC /IHB/ celebrated the 10th anniversary since its establishment. As a whole, the year was successful for IHB and its group companies. IHB expanded its operations in the maritime business, increased the investments in shipbuilding and acquired further 10% of the capital of Bulyard. IHB signed two contracts for building of two own multi-purpose ships of 9800 dwt each thus starting the preparation for entering the sea transport sector.

2006 will be remembered in the history of the Bulgarian shipbuilding for resuming shipbuilding and construction of the first new ship at Bulyard Shipbuilding Industry.

Investments were made in the river cruises sector, and Dounav Tours, an associated company of IHB, enlarged its fleet of river passenger ships with two new ships - Heinrich Heine and Elegant Lady.

Some key data about IHB operations:

- The operating revenue of IHB, on consolidated basis, marked an increase of 89% as compared 2005.
- The total revenue of IHB increased by 47% during the period.
- The assets of IHB, on consolidated basis, marked an increase of 12% as compared to 2005;
- The net assets, excluding minority interests, marked an increase of 13% as compared to 2005;
- The profit on consolidated basis decreased by 68% as compared to 2005 and is BGN 9 647 thousand /excluding minority interests/ as a result from decreased gains from investment operations - the shares of Dockyard Odessoss, in particular, representing a source of inconstant income to IHB and decreased profit on sale of assets realized in 2005 through real estate transactions. As compared to 2004 and 2003, however, a trend of increasing profit comparable to the growth of the machine

building and shipbuilding sectors, where IHB made its major investments, has been observed.

- The shares of IHB added some 62% to their value in 2006, and their rise is higher than the SOFIX and BG40 indices rise - 48% and 50% respectively.

IHB continues enjoying a good evaluation by the investors' society. In 2006 as well, the Holding's shares were one of the most liquid positions on Bulgarian Stock Exchange-Sofia

1. 2006 operating results

IHB Group consolidated financial results

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

- Products sale revenue - BGN 110 611 thousand. The products sale revenue increased by BGN 65 625 thousand, i. e. it marked a rise of 146% as compared to 2005. This rise is a result from the increased shipbuilding revenue of BGN 66 439 thousand as compared to BGN 7 327 thousand in the preceding period. Most of the other Group companies also realized increased revenue in 2006, excluding Bulgarian Register of Shipping and Leyarmach which marked inconsiderable decrease and Privat Engineering and KLVK which realized considerably decreased revenue as a result from decreased profit from sale of non-current assets.
- Revenue from rendered services - BGN 18 759 thousand. The revenue from sale of services marked a decrease of BGN 4 538 thousand or

20% as compared to 2005. The revenue from ship repair decreased as Bulyard Shipbuilding Industry started general construction of ships.

- Revenue from sale of goods and materials - BGN 3 034 thousand.

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

The consolidated net profit for 2006, excluding minority interests, is BGN 9 647 thousand as compared to BGN 29 898 thousand, i. e. it decreased by 68%. Respectively, the profit decrease also decreased the tax expenses for 2006 - BGN 1 789 thousand as compared to BGN 4 180 thousand in 2005.

IHB operating results

Portfolio restructuring

Increase of participation in some companies from the portfolio

By virtue of an agreement signed with Dockyard Odessoss on 28 March 2006, IHB purchased 2 401 898 voting shares, representing 10% of the capital of Bulyard. Dockyard Odessoss terminated its shareholding in the capital of Bulyard, while the interest of IHB reached 61.50%. The transaction value is BGN 3 120 100.

IHB increased its share in Dockyard Port Bourgas by 20 shares or 0.01% and in Dunav Tours by 60 shares or 0.01%.

The total amount of funds invested in corporate securities in 2006 is BGN 3 120 460.

In 2006 ZMM Bulgaria Holding increased its shareholding in ZMM Nova Zagora by 7 273 shares or 2.45% as a result from a tender offer to the other shareholders.

Newly established companies

In the first quarter of 2006 the subsidiary ZMM Bulgaria Holding established a joint stock company under the name of Bulcari EAD with capital of BGN 2 million to participate in the privatization of Balkancar Sredets AD. The offer of Bulcari ranked second and the company did not win the tender.

The subsidiary Privat Engineering established two own subsidiaries - Emona Shipping Ltd and Marciana Shipping Ltd, registered in Malta, with capital of EUR 9 000 each. The companies concluded an agreement for construction of two 9 800-ton multi-purpose ships at Bulyard Shipbuilding Industry. The vessels are intended for unrestricted region of navigation and shipping of bulk freights and containers. The value of each ship is EUR 13.5 million.

Sale of portfolio shares

In May 2006 IHB sold the remaining 430 489 shares, representing 25.86% of the capital of Chimremontstroy in compliance with the agreement signed with Chimremontstroy Engineering AD. The transaction value is BGN 600 thousand.

By virtue of an agreement signed on 15 February 2006, IHB sold its own 39 349 shares, representing 17.99% of the capital of Elpo AD. The transaction value is BGN 128 thousand.

In 2006 8 233 shares of the capital of Bulgartabac Holding AD were sold for the total price of BGN 288 thousand. The average price per share less the sale costs is BGN 34.82.

In October 2006 the General Meeting of Shareholders of Transbalkan Oil Pipeline Bulgaria AD made a decision on termination of the company's operations and its liquidation as it failed to achieve the objective it was established for. The capital share of BGN 107 thousand, paid up by IHB, will be reimbursed.

As a result of the 2006 restructuring, IHB increased its share in the shipbuilding sector. The maritime business already occupies 57% of the portfolio as compared to 52% in 2005 and 38% in 2004.

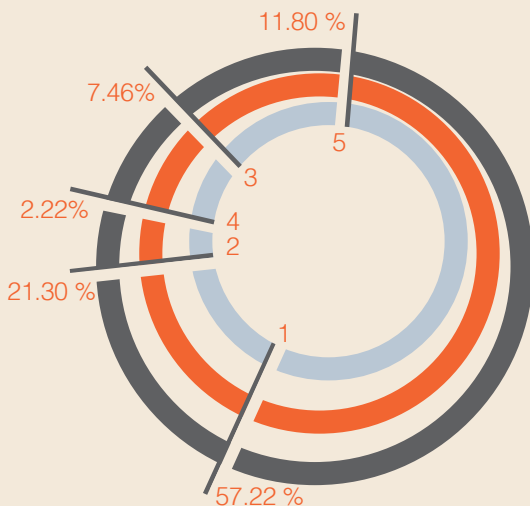
In 2006 the sector structure of the portfolio changed as a result of the termination of investments in real estates by IHB at the end of 2005.

The portfolio structure changed as a result of the decreased shares of the other sectors, which are at

the end of 2006 as follows: investments in the machine building sector - 21% of the total investments, river cruises - 8%, furniture production - 2% and other -12%.

As at 31 December 2006 the portfolio of IHB, directly and through affiliates, is formed of 25 companies, as follows: 9 subsidiaries, 2 associated companies, 13 subsidiaries of subsidiaries and associated companies and 1 portfolio investment company. The direct investments of IHB in corporate securities amounted to BGN 37 027 thousand at the end of the year.

Portfolio structure

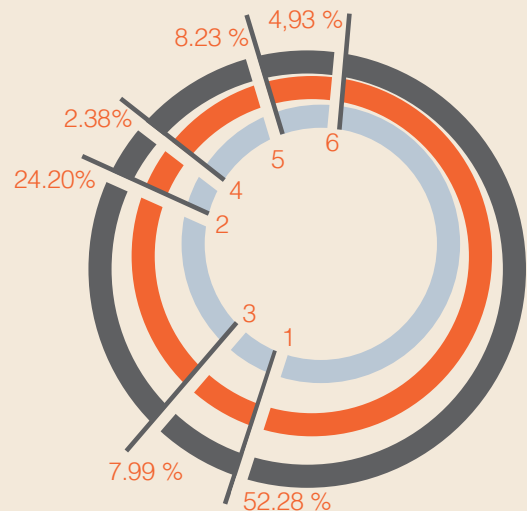


2006

investments total: BGN 37 027 thousand

- 1. Maritime business
- 2. Machine Building
- 3. River cruises
- 4. Furniture production
- 5. Others

Portfolio structure



2005

investments total: BGN 34 559 thousand

- 1. Maritime business
- 2. Machine Building
- 3. River cruises
- 4. Furniture production
- 5. Real estate
- 6. Others

Management of the subsidiaries

Pursuing the tasks set at the beginning of the year with respect to its subsidiaries, in 2006 as well, IHB participated actively in the strategic planning of the business of the subsidiaries. IHB encouraged and assisted in the following:

- carrying out of investment activities;
- improvement of their products and services, development and introduction in production of new products and services, depending on market requirements;
- enhancement of the marketing activities, the human resources management activities, as well as other activities related to the companies' management;
- provision of funds for the operating and investment activities of the companies;
- analysis and assessment of the possibilities for utilizing the new Internet technologies.

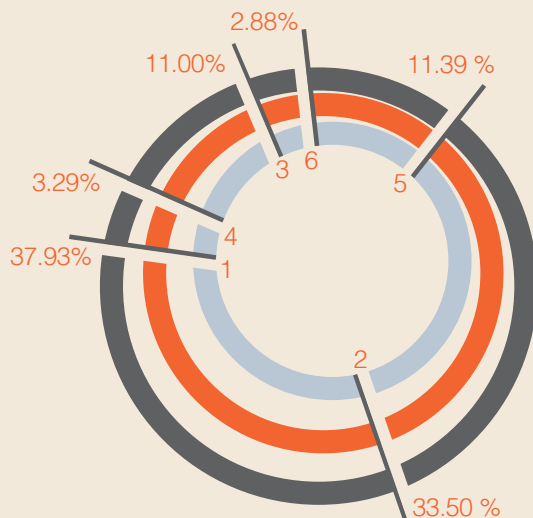
Participating in the process of business planning and control over the results achieved

Realizing the important role of control in the management of the subsidiaries, the IHB's management continued applying its practice of business planning and monitoring results.

The process of business planning and controlling the results in IHB has continued under the procedure approved. The management of IHB set strategic goals and results, which each company had to achieve in 2006. Each of the directors had a personal business task for the year, related to the priorities of the company's activities.

The management and experts of IHB endeavour to be constantly aware of the activities of the subsidiaries. Information is exchanged on monthly basis as the companies submit reports on their operations for each month. A total of 3 work meetings are held per

Portfolio structure



2004

investments total: BGN 24 964 thousand

- | | |
|----------------------|-------------------------|
| 1. Maritime business | 4. Furniture production |
| 2. Machine Building | 5. Real estate |
| 3. River cruises | 6. Others |

year among the management of the Holding and the respective management teams of the companies, at which the results from the past quarter are reported. At the meetings the results for the reporting period are discussed, the difficulties faced by the management teams of the companies are shared and the possibilities for resolving the problems are analyzed.

The direct result of the management of the subsidiaries is the dividend received upon distribution of their profits.

Providing support in the financing of the subsidiaries

In 2006 IHB granted a total loan amount of BGN 5 303 thousand to its subsidiaries at an interest rate of the base interest rate plus 7 points. The receivables under loans as at 31 December 2006 amount to BGN 763 thousand.

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

In 2006 IHB did not provide any new guarantees for subsidiaries to commercial banks in the form of avals of promissory notes. As at 31 December 2006 the collaterals given by IHB for liabilities of subsidiaries amount to BGN 214 thousand and represent such on performance bonds undertaken by Elprom ZEM to customers with maturity dates depending on the term of agreements signed with customers of Elprom ZEM. IHB ensured the issuance of bank guarantees at the amount of EUR 671 thousand by Bank DSK as security for liabilities of Elprom ZEM under an agreement signed with a customer. An agreement for credit limit of BGN 4 500 thousand for issuance of bank guarantees and working capital financing was also signed, the guarantees being secured by registered pledge of the business of Dockyard Port Bourgas AD, a subsidiary of IHB.

In June 2006 the General Meeting of Shareholders of IHB made a decision on provision of corporate guarantees to the companies which signed agreements with Bulyard Shipbuilding Industry for the building of ships with construction Nos 457, 516 and 515. The corporate guarantees are in the form of step in the debt of Bulyard Shipbuilding Industry to each customer for reimbursement of the third advance payment paid by the customers to Bulyard Shipbuilding Industry if the latter fails to fulfil its obligations under the ship building agreements and return the advance payments to its customers. The total amount of the corporate guarantees /step in debt/, which IHB will issue to the customers of Bulyard Shipbuilding Industry, should not exceed EUR 10 630 thousand and USD 8 869 770 at any time, including the interest agreed in the ship building agreements of 3-month EURIBOR/LIBOR plus 5%.

IHB will receive remuneration for the corporate guarantees issued equal to 2% of the amount of each guarantee provided.

The provided corporate guarantees are secured by collaterals in the form of conventional mortgages on real estates owned by Bulyard Shipbuilding Industry, the real collaterals amounting to not less than 120% of the amount of provided corporate guarantees.

In 2006 IHB issued a corporate guarantee of EUR 4 280 850 and USD 3 729 018 to secure the third advance payment received for the building of ship with construction No 516. As a result of a fulfilled obligation of Bulyard Shipbuilding Industry to the ship buyer, the guarantee was closed on 15 December 2006.

On 15 November 2006 IHB issued a corporate guarantee of EUR 3 433 424 and USD 2 977 531 for the third corporate guarantee for ship with construction No 457. The guarantee was closed on 2 May 2007 as a result from a performed obligation to the buyer.

In 2006 the subsidiaries of IHB financed their operations through bank loans granted by Commercial Bank Allianz AD, Bank DSK EAD, Raiffeisenbank - Bulgaria AD, United Bulgarian Bank AD and Biochim AD.

The interests agreed on the loans utilized by the subsidiaries vary between EUROLIBOR +2.5% and +4%.

Teams of IHB assisted in the development of the business plans of the subsidiaries, which were required by the banks as substantiation for granting the loans.

Software resources provision

In 2006 the IHB file server was fully replaced with a view to data completeness security. The Windows NT operational system was replaced by Windows Server 2003, new server software, and the e-mail software was upgraded to Microsoft Exchange 2003 version.

Cooperation with the academic society


In 2006 the IHB group companies continued to successfully cooperate with the academic society. Training of students of technical schools and universities is conducted at most companies: Bulyard Shipbuilding Industry, Elprom ZEM, Mashstroy and ZMM Sliven. The companies' management bodies are members of Boards of technical universities - the Executive Director of Bulgarian Register of Shipping in Varna Technical University. Joint projects are being developed by the universities and companies in relation to new developments and particular assignments regarding the production and repair activities of Bulgarian Register of Shipping, Elprom ZEM and Bulyard Shipbuilding Industry.

The companies hire university trainees and graduates.

Participation in projects of the pre-accession facilities

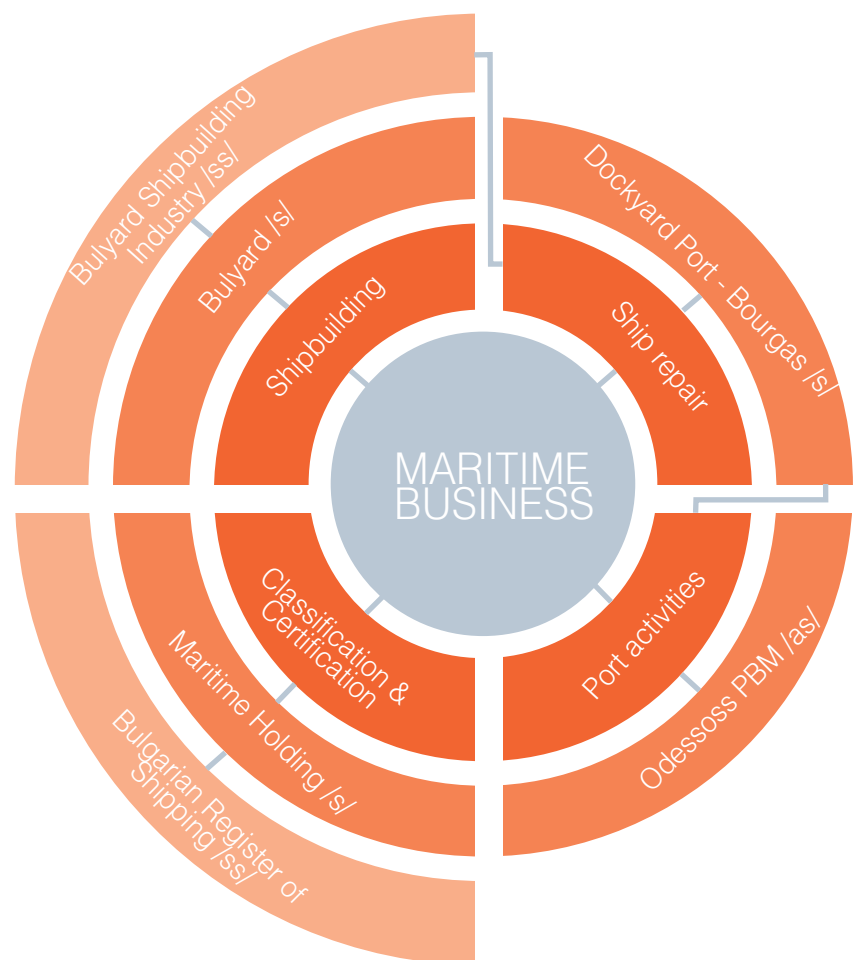
In June 2006 some of the investment projects of the subsidiaries were supported with funds under programs of the pre-accession facilities. Projects for healthy and safe work conditions and innovations have been in process of implementation.

Experts of IHB assisted in the preparation of the projects and application documentation.



Generally, maritime business includes the following sectors: shipbuilding, ship repair, port operations, classification and certification.

MARITIME BUSINESS



SHIPBUILDING



Mr. Todor Daskalov
Chief Executive, Bulyard Shipbuilding Industry

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The biggest success of Bulyard Shipbuilding Industry in the last year was return on the market with delivery in time of two vessels.

During the 2007 we expect to sign several ship building contracts which will provide work for the shipyard for the next few years till 2011 included.

Prosperity of Bulyard Shipbuilding Industry will be our major issue to bring back confidence in Bulyard Shipbuilding Industry, to bring back experienced people.

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The marketplace

As a whole the world shipbuilding industry enjoys progress. Considerable increase in sea transport volume is reported, which imposes the necessity of new and more ships for transportation of the bigger volume of cargoes among the countries.

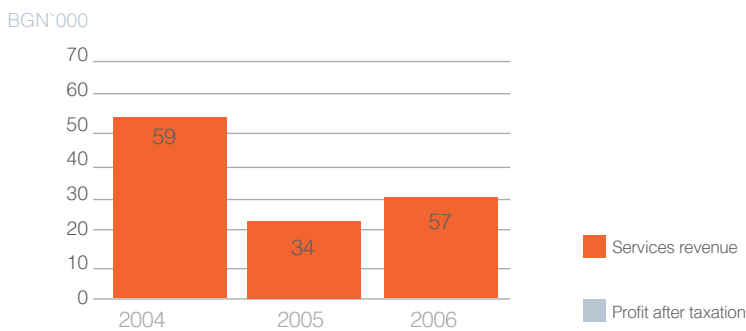
Supplying and other special purpose ships of moderate tonnage, high technology and at good prices are most demanded. The second place is occupied by ships for bulk cargo of 55 000 - 65 000 dwt. All shipyards are 100% work loaded till 2009 and this increased the prices of used ships and imposes precedent prices for used ships - higher than the prices for new ones. This is also predetermined by the fact that a new ship is produced for a year or two, while used ships can be immediately exploited. At the same time, the world cruise industry marks an upsurge which imposes the necessity of more new passenger ships. During the last year, the world cruise industry transported over 10 million passengers, which represents an increase of 10% as compared to the preceding year.

Bulyard AD and its subsidiary Bulyard Shipbuilding Industry AD

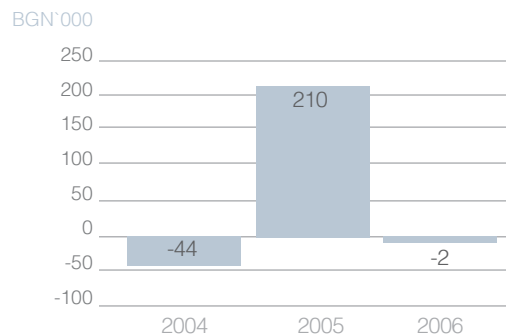
Bulyard owns 100% of the capital of Bulyard Shipbuilding Industry as at April 2007 and is involved in the management of this subsidiary.

Financial results of Bulyard /non-consolidated/

Operating Revenue



Profit after taxation



Bulyard Shipbuilding Industry AD

The core activity of Bulyard Shipbuilding Industry is building of new ships, construction separate ship sections and units and ship repair.

In 2006 the work of the shipyard is characterized by gradual loading of its production capacities with the building of new ships with construction Nos 287, 516, 515 and 457. Shipbuilding has become core activity of the company and the income from this activity exceeds the income from ship repair 16.5 times. The 2006 revenue from shipbuilding amounts to BGN 66 439 thousand as compared to BGN 7 327 thousand in 2005.

The number of requests and letters of intention concerning building of ships and hired services has considerably increased.

5 contracts were signed with Aker Tulcea, Romania for production of hull sections for supplying ships. These orders of high return are fulfilled by subcontractors. 3 contracts were signed for new ships - 1 ship with construction No 190 for the Norwegian shipyard Flekkefjord Slipp & Maskinfabrikk AS and 2 ships for the subsidiaries of IHB - Privat Engineering - ship with construction No 288 for Emona Shipping and ship with construction No 289 for Marciana Shipping, the last two being multi-purpose 9 800-ton ships intended for unrestricted region of navigation and shipping of bulk freights and containers. The vessels will be the improved design version of ship with construction No 287 - more modern and of higher container

capacity.

In 2006 two ships were commissioned - Tangra ship with construction No 287 - 9 300 dwt owned by Bulcom, which was built and delivered to the owner on 16 January 2007 and is certified by Lloyd's Register of Shipping and Stara Planina - the first of the ships of Navigation Maritime Bulgare - 42 600 dwt for bulk cargo, which will be ready for commissioning in May 2007 and is certified by Bureau Veritas.

The required technical documents were updated in compliance with the signed contractual requirements and their adjustment to the new rules and requirements of the classification organizations.

In 2006 the employment of basic production personnel - hull experts and welders, including from abroad, continued. The Company is one of the few companies in the country that have obtained permission for hiring employees from Ukraine. The insufficient number of employees was compensated for through conclusion of contracts with subcontractors for performance of the basic production activity. During the preceding year active investment operations were executed with a view to restoring of production capacities, increasing of labour efficiency and introduction of new technologies. In 2006 the amount of BGN 4 739 thousand was invested, the financing sources being own funds from retained earnings and a smaller part - funds from a special purpose

credit granted by SG Expressbank AD.

Corporate expenses are strictly followed up through the system for comparison of plan and reporting cost prices based on months and stages of ships building. The value of unfinished production under shipbuilding orders marked an increase.

At the end of 2006 a rise was reported in waste product sale revenue as a result of active production and increased stock costs due to lots of supplies of steel sheets and other basic building materials. Inventories were not depreciated as at the end of 2006 there was no old stock.

On 25 April 2007 Pirin, the second ship of the order of Navigation Maritime Bulgare - 21 200 dwt, construction No 457, intended for bulk cargo and certified by Germanischer Lloyd, was commissioned. The ship is expected to be delivered in October 2007. Intensive works are being done in relation to the pontoon deck assembly of the third ship under the order of Navigation Maritime Bulgare - a 43 000 ton ship for bulk freights with construction No 515. The cutting up and assembly of sections for Order No 190 continue. At the end of March 2007 Bulyard Shipbuilding Industry signed a second contract for construction of a partially saturated hull for a ship designed for support. The cutting up of the new ship with construction No 191 is planned to start in August 2007. The cutting up of ship with construction No 288, which is the first of the series of 9 800-ton multi-purpose ships for Emona Shipping and Marciana Shipping, is in a process of completion as well. It is to be

placed in a dockyard chamber in November 2007.

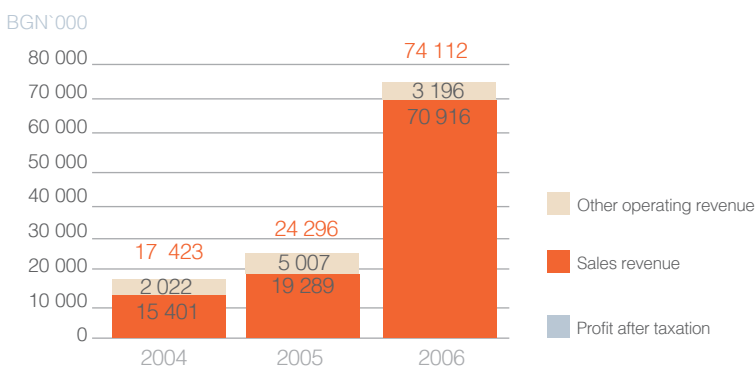
In 2007 Bulyard Shipbuilding Industry signed a contract with Mitsubishi Corporation for license for the building of a new ship super handymax F56. The ship type is exclusively popular on the market and there is a great interest in such orders on behalf of ship owners.

In March 2007 the shipyard obtained a quality management system certificate ISO 9001:2000. The certificate scope includes design of vessels, shipbuilding and ship repair. The certificate was issued by BV - Bureau Veritas Certification - Bulgaria.

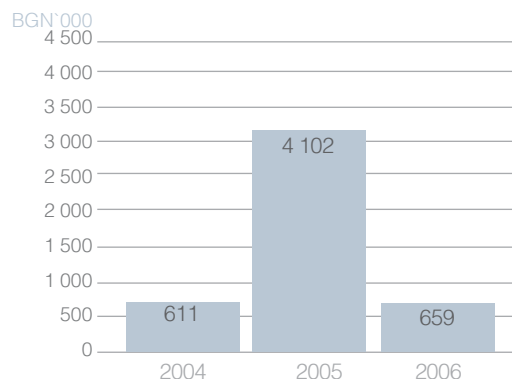
The potential participation of Bulyard Shipbuilding Industry in large projects related to military shipbuilding has imposed additional requirements with regard to the investment program of the shipyard so as the latter may meet the higher criteria in this production sector. The approved 2007 Investment Program of the Company is for over EUR 3 million and envisages purchase of new equipment, construction and equipment of a blasting and painting chamber. Part of the funds will be provided through increase in the capital of Bulyard Shipbuilding Industry and part - under the form of a special purpose bank credit. At present the old canteen building of the Company is being reconstructed and will be transformed into a modern office building with bank and insurer's offices by the end of the year. It will also shelter a designer bureau for ship design and a canteen with 500 seats with kitchen for 1000 persons on the last floor.

Financial results of Bulyard Shipbuilding Industry /from all activities - shipbuilding and ship repair/

Operating Revenue



Profit after taxation





SHIP REPAIR

Bulyard Shipbuilding Industry AD, Dockyard Port-Bourgas AD

The marketplace

The higher criteria and introduction of new requirements on ship security impose the necessity of more frequent repairs - a factor positively affecting ship repair operations. The IHB Group companies, involved in ship repair, have the opportunity to repair ships within a wide range in terms of size - from small ships of up to 5 000 tons at Dockyard Port Bourgas to big ships of up to 100 000 tons at Bulyard Shipbuilding Industry.

Bulyard Shipbuilding Industry AD

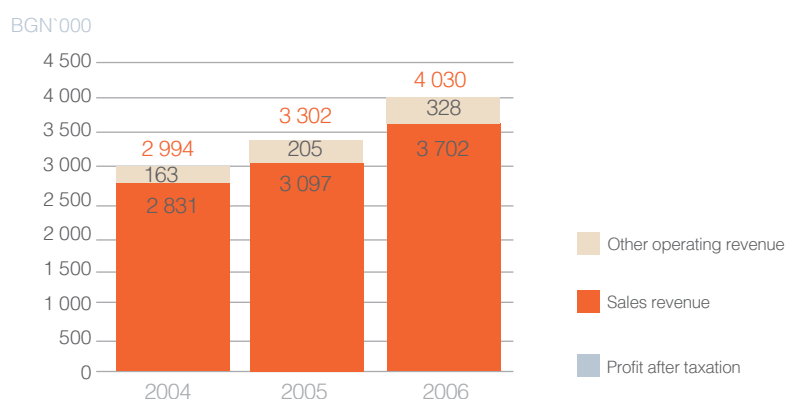
The Company continues to perform ship repair activity, along with shipbuilding, with a view to 100% capacity loading. During the periods, when the chambers are free, Bulyard Shipbuilding Industry carries out shipbuilding activity. In 2006 25 vessel repairs were made at the value of BGN 4 008 thousand - 16 for Bulgarian ship owners and 9 for foreign ship owners, while in 2005, 57 repairs of 44 vessels were made at the total value of BGN 11 709 thousand - 21 for Bulgarian ship owners and 23 for foreign ship owners. The 2006 revenue from ship repair activity forms 6% of the total revenue in contrast to its share of 61% of the total revenue for 2005.

Dockyard Port - Bourgas AD

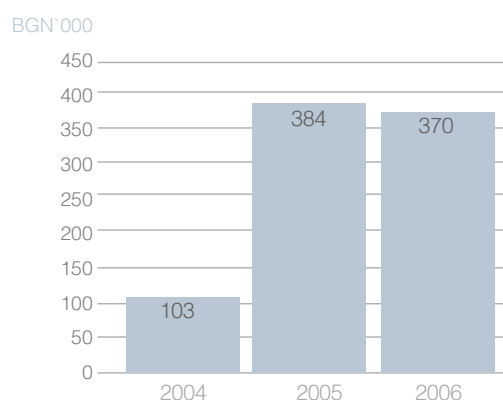
The Company's services demand was unsteady in 2006. The Company's capacities were poorly loaded in the first quarter and better in the second and the fourth quarters of the year. Despite the unsteady production cycle, the sales volume exceeded the one realized in the preceding periods. The 2006 revenue from ship repair amounts to BGN 3 353 thousand, i. e. it increased by 14% as compared to 2005. This represents 83% of the 2006 total revenue of the Company.

Financial results of Dockyard Port - Bourgas /form all activities - ship repair and port operations/

Operating Revenue



Profit after taxation





PORT ACTIVITIES

PORT ACTIVITIES



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2006 was the first year of active port operations of Dockyard Port-Burgas. The team of the company proved that it can work well. So the start was successful and now we are expecting years of gradual speeding in the competition for acquiring own market share of port activities in Bulgaria.

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Mr. Vesselin Statev
Chief Executive, Dockyard Port - Bourgas

Dockyard Port - Bourgas AD, Odessoss PBM AD

The marketplace

Port operations are expected to enjoy progress in the forthcoming years. The sea transportation of goods is expected to mark greater activity against transportation by land due to environmental reasons. The increased economic exchange among the countries, resulting from economies' growth, is another reason predetermining this progress. This trend is observed in Bulgaria as well - there are growth in GDP and growth in export and import. In this aspect, the two ports of the IHB Group have the chance to find places in this sector. The ports are located in Varna and Bourgas - Odessoss PBM covering an area of 150 decares and Dockyard Port - Bourgas covering an area of 50 decares. The two ports are constructed on own terrain which represents a competitive advantage and have obtained regional importance port licenses. Both ports avail with certificates for procession of general, liquid and bulk cargo

Dockyard Port - Bourgas AD

According to the Exploitation Certificate, in 2006 Dockyard Port-Bourgas processed general and liquid cargo, mainly all kinds of metal freight and finished metal products. Port operations developed much faster as compared to 2005 in terms of infrastructure and processed cargo. A total of 26 875 tons of metal was processed during the reporting year.

In 2006 the revenue from port operations, which includes cargo procession, warehouse and exploitation activities, rents and other related activities, amounts to BGN 506 thousand as compared to BGN 179 thousand in 2005.

On 20 December 2006 the Company obtained a Port Operations Certificate under ISO.

In 2006 Port Dockyard Port-Bourgas was included in the National Program for Bulgarian Ports Development - a very important factor for the future development of this port. In 2006 Dockyard Port-Bourgas obtained a license by Regional Customs Directorate - Bourgas for the port exploitation - a customs code and registered a temporary customs warehouse type A, covering 50% of the port capacity.

The market positions of Dockyard Port Bourgas will strengthen with the increase in the port capacity. The following activities are envisaged: extension of a quay wall along the existing one, doubling of the existing railway line, building of new sheltered warehouse premises and separation of open ones and their full equipment with port facilities. At the end of the extension project a new terminal is planned to be built up to shelter and store all kind of general cargo.

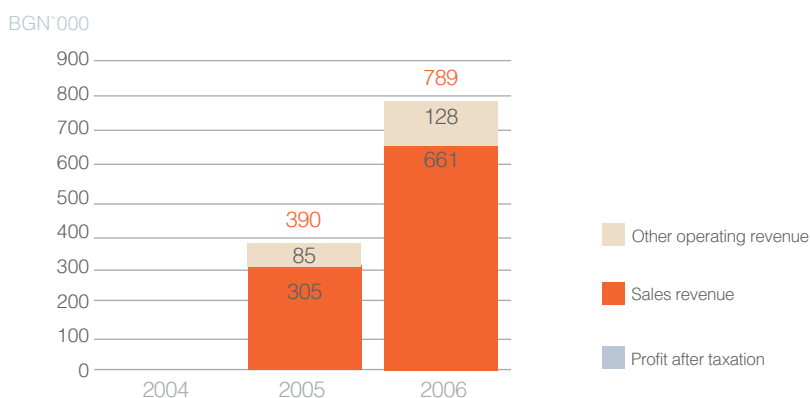
The amount of BGN 1 709 thousand is envisaged to be invested in 2007 - part of the assets will be created in economic way and part of them - through assignment and purchase. The financing will be provided with own and borrowed funds.

Odessoss PBM AD

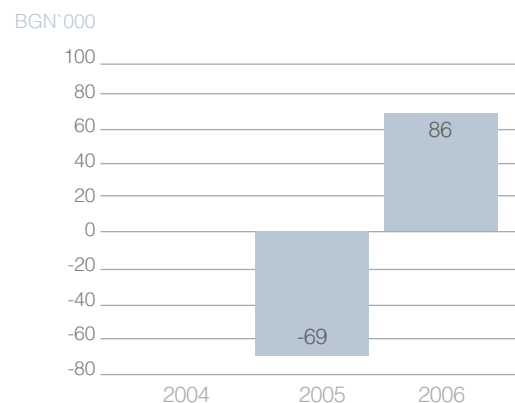
In 2006 Odessoss PBM realized operating income of BGN 661 thousand or an increase of BGN 116 thousand as compared to 2005. The major part of the revenue represents rent and port services income. The other revenue amounts to BGN 128 thousand, 75% of it being gains from scrap sale.

Financial results of Odessoss PMB

Operating Revenue



Profit after taxation



CLASSIFICATION AND CERTIFICATION



Mr. Andrei Todorov
Chief Executive, Bulgarian Register of Shipping

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In 2006 the Bulgarian Register of Shipping granted class to eight ships. The second stage of the development of the new Regulations of BRS was concluded. In 2007 the key moments for BRS will be the training of inspectors for supervising the building of new ships in conformity with the contract signed with the Japanese Register Nippon Kaiji Kyokai, Lloyd Register and Bureau Veritas. Inspectors will be trained also for supervision of the repair and certification of containers and for conducting of high frequency diagnostics and receiving a certificate.

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Maritime Holding AD and its subsidiary Bulgarian Register of Shipping AD

The marketplace

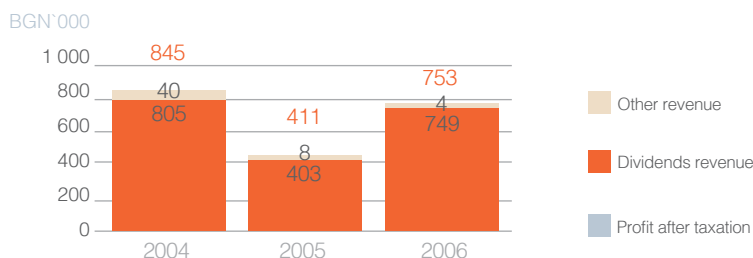
The classification and certification of vessels depend on shipbuilding and ship repair development. As these sectors have been developing and enjoy progress, the classification and certification of newly built and repaired ships also mark growth. Another contributing factor is the introduction of new higher requirements on navigation security and safety by the World Maritime Organization.

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

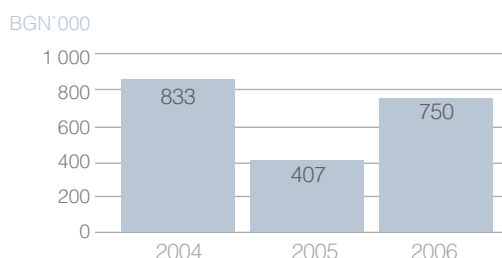
The activity of Maritime Holding AD is the management of its subsidiary Bulgarian Register of Shipping AD, the operations of which are related to classification upon building of new ships, ships in exploitation and repair, independent construction supervision in the building sector /upon licensing/.

Financial results of Maritime Holding

Operating Revenue



Profit after taxation



Bulgarian Register of Shipping AD

In 2006 the revenue from sale of services of Bulgarian Register of Shipping AD marked a decrease of BGN 155 thousand or 7% as compared to the preceding year. The Company's profit increased by BGN 81 thousand or 10% as compared to 2005. The procedure related to the certification of Bulgarian Register of Shipping AD by Lloyd's Register of Shipping continued in 2006. The Company will proceed with the training of inspectors for employment abroad and finding of new prestigious partners abroad.

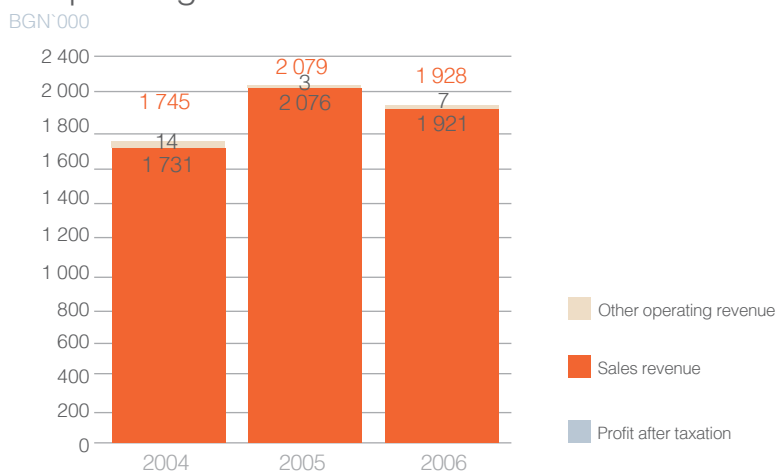
The mid-term objectives of Bulgarian Register of Shipping AD include the Company's preparation for recognition by the

European Union and increase of the tonnage of the supervised fleet.

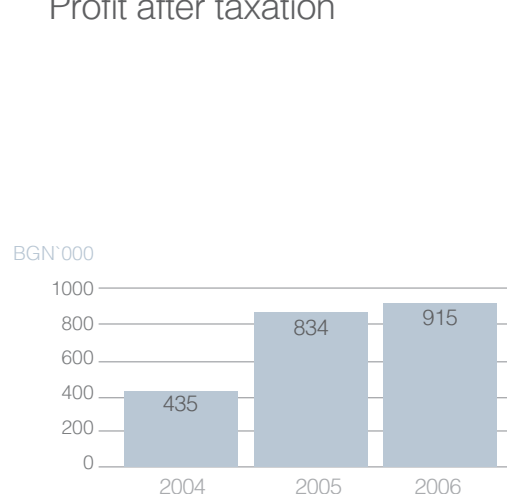
The basic classification and certification activity is becoming more and more competitive and Bulgarian Register of Shipping AD finds it difficult to compete with its multinational competitors Lloyd's Register of Shipping, Bureau Veritas, Germanischer Lloyd. Therefore, the objective is development in the sector of industrial audit and related operations. Bulgarian Register of Shipping AD has submitted documents for certification by the European Union as a Register.


Financial results of Bulgarian Register of Shipping

Operating Revenue



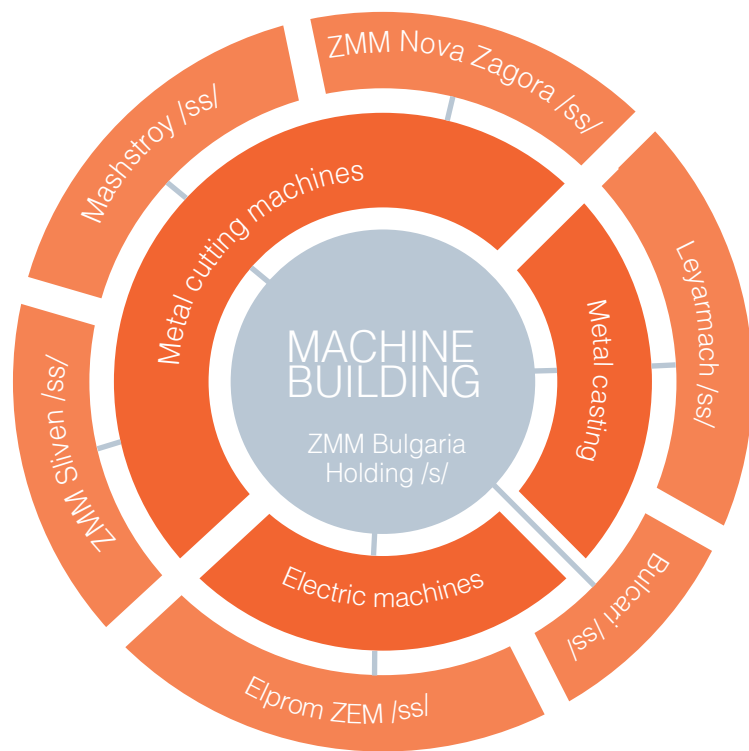
Profit after taxation





The machine building sector includes the following sub-sectors: production of metal cutting and electric machines and metal casting.

MACHINE BUILDING





During 2006 ZMM Bulgaria Holding further strengthened its position as the biggest producer of metal cutting machines in the country. Over 95% of the output is exported to over 50 countries worldwide. The company ranks among the top five producers of universal lathes in the world.

Mr. Anguel Katzarov
Chairman Board of Directors, ZMM Bulgaria Holding

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

The Marketplace

The demand for metal cutting machines is characterized by a relative permanence in long-term aspect and variation and decrease per each 3-4 years. This is predetermined by the long life cycle of the products and their sale to a wide range of customers. The overall economic condition of the world market considerably influences demand.

International economic relations change periodically and this changes the realization of metal cutting machines, while world and regional stagnation and economic crises negatively affect this realization. This fact does not concern the export and trade in these basic products when the market and their demand are stable. With a view to improvement of the good business image of these products and prolongation of their life cycles, their design and technical characteristics and work safety need constant improvement and the standards and requirements of ISO 9001, as well as the European standards on safety mark (CE), are to be complied with.

The main steps, undertaken by the management of ZMM Bulgaria Holding and having affected the operating income of the Group in the last several years, are the following:

- Execution of integrated, consistent and flexible business policy by customer and market in relation to production volume and services, ensuring avoidance of business competition among the subsidiaries;
- Application of policy on centralized agreement with suppliers of materials with the biggest weight in production cost price to reduce the negative affect of the constantly rising prices of these materials;
- Material decrease of metal-consuming products against labour-consuming ones in consideration of the nearly double prices of cement steel /replacement of rolled iron with casts/;
- Provision of buffer financial reserve under the control of ZMM Bulgaria Holding, which contributed to the operational overcoming of temporary financial difficulties of the companies that are unavoidable in consideration of the market dynamics and increased the trust of customers and suppliers;
- Introduction of single accounting plan and unification of the accounting software, which reduced the time required for the collection and procession of accounting information and ensured better planning of production processes;
- Modernization of the basic production equipment of the companies, which provides solution to the problematic "narrow" points in the production process. In the last 3 years there were purchased and installed new strip cutting machines at Mashstroy and ZMM Sliven, second-hand processing centres at ZMM Nova Zagora and ZMM Sliven, second-hand high frequency voltage



In 2007 the companies of the Holding shall streamline their efforts towards expounding the market for metal cutting machines with In-built CNC systems, renewal of the facilities in the factories and improvement of the quality of the machinery produced. The main objective for the Company is to turn the ZMM Bulgaria into a guarantee for reliability and quality in metal processing.



Mr. Dobromir Todorov
Chief Executive, ZMM Bulgaria Holding

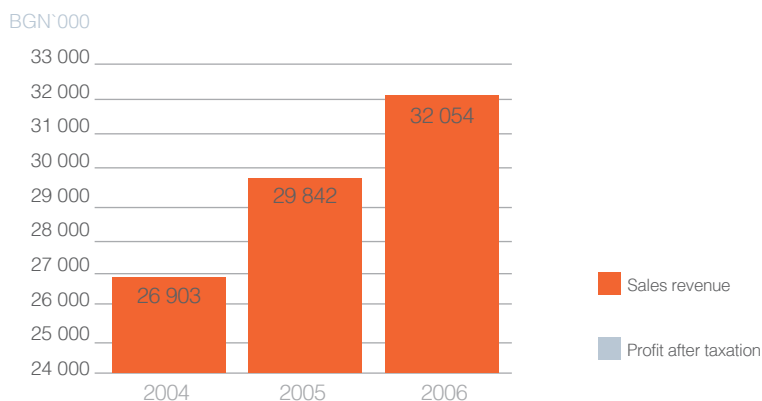
vertical CNC centres and a CNC lathe 251 at ZMM Nova Zagora, second-hand planer-type surface grinder and screw cutting machine at Mashstroy and unique equipment was modernized at Elrpom ZEM - a large boring machine. A procedure for purchase and installation of two new induction furnaces at Leyarmach and building of a laser cutting workshop at Elprom ZEM is going on. The basic technological units of the Group's companies are to be renovated;

- Starting the production of new products with updated prices for solvent consumers as well - annual actualization of the production scope including at least one new product for each subsidiary, ensuring occupation of certain market niches in the machine building sector. At Mashstroy and ZMM Sliven there are developments in progress for improvement of the offered universal lathes with respect to expansion of the range of heavy machines, models with increasing of centre distance with over 5 m and offering of machines with lighter mandrel opening, the range of CNC machines and development of machines with cyclic program operation. During the last two years ZMM Nova Zagora expanded its range of strip cutting machines including machines with bigger section length and with CNC operation and started the production of feed gear and support boxes for metal cutting machines designed for export. Leyarmach mastered technology for spheroidal-graphite cast iron ensuring higher profitability and enjoying greater demand on the market. Elprom ZEM is building a new technology for insulation of rods for hydro-generators and efforts are made in the direction of bigger volume of electric motors production. The development of a new insulation system for high voltage stator windings for hydro-generators by the experts of the Company and Isovolta - Austria in 2003-2004 was awarded a gold medal and a diploma at the International Technical Fair - Plovdiv'2006. This ensures the possibility for increasing the energy efficiency of hydro-generators up to 15% and their safety and reliability, and longer guarantee period - from 18 to 48 months.

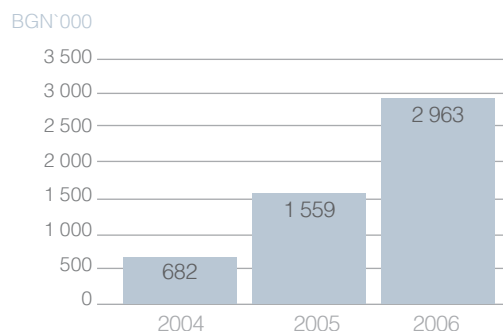
In the future ZMM Bulgaria Holding will direct its efforts with respect to its subsidiaries to the search of new customers, stimulation of development activities at the separate companies and, where possible, concentration of this activity in the company having the best potential, closure of inefficient units and functioning based on market principle within the group of the machine building holding.

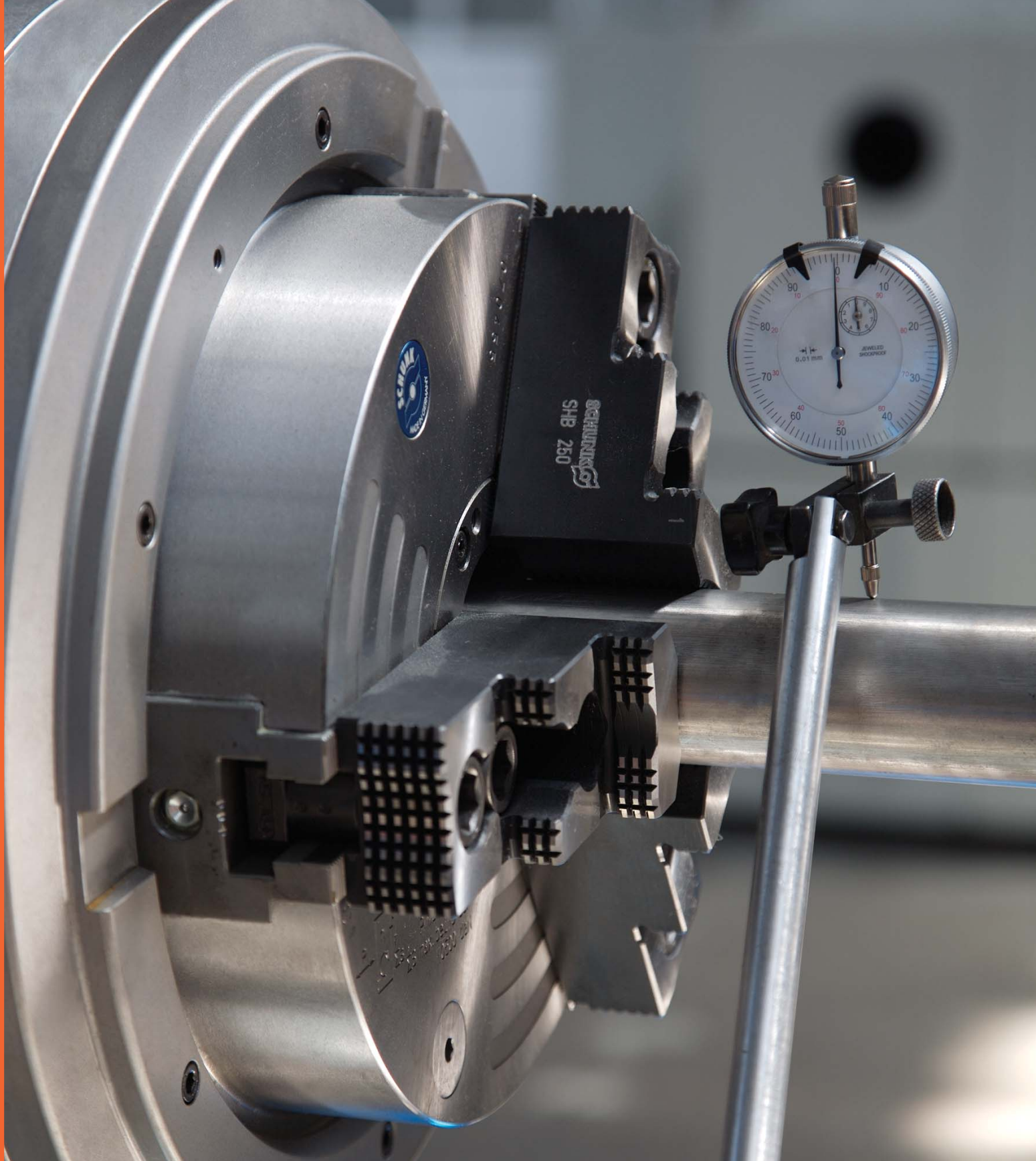
Financial results of ZMM Bulgaria Holding /non - consolidated/

Operating Revenue



Profit after taxation





METAL CUTTING MACHINES



Mr. Georgi Dobrev
Chief Executive, ZMM Sliven

“

In 2006 our company enhanced and further developed the older modifications and launched two new universal machines on the market. There is a permanent tendency for a strong demand of the CNC machines LCC 800, LCC 1000 and LCC 1250. In 2006 ZMM Sliven AD reached the biggest volume of proceeds since 1994.

The aims for 2007 are to achieve at least a 12% income growth as compared to 2006 and to present improved CNC machines on the market.

”

ZMM Sliven AD and Mashstroy AD

In 2006 the demand for small and large lathes kept and increased sale of large lathes was observed. The whole 2006 is characterized by fall in the demand for and sale of metal cutting machines on the Turkish market and increased sale on the markets of USA, Russia, Italy and Germany. As a result from this market conditions, in 2006 the sales of ZMM Sliven marked a decrease of 10.26% in in-kind form and value rise of 1.39% - a record volume realized since 1992. The 2006 sale revenue amounts to BGN 17 785 thousand as compared to BGN 17 541 thousand in 2005. The Company's profit for the year after taxation is BGN 681 thousand as compared to the 2005 net profit of BGN 209 thousand.

The 2006 net sale revenue of Mashstroy amounts to BGN 14 671 thousand, i. e. it increased by BGN 1 320 thousand as compared to 2005. The revenue from products sale amounts to BGN 14 228 thousand. In 2006 the volume of CNC lathes sale considerable increased and reached 7% of the total production sales as compared to the last four years when they occupied not more than 2% of sales.

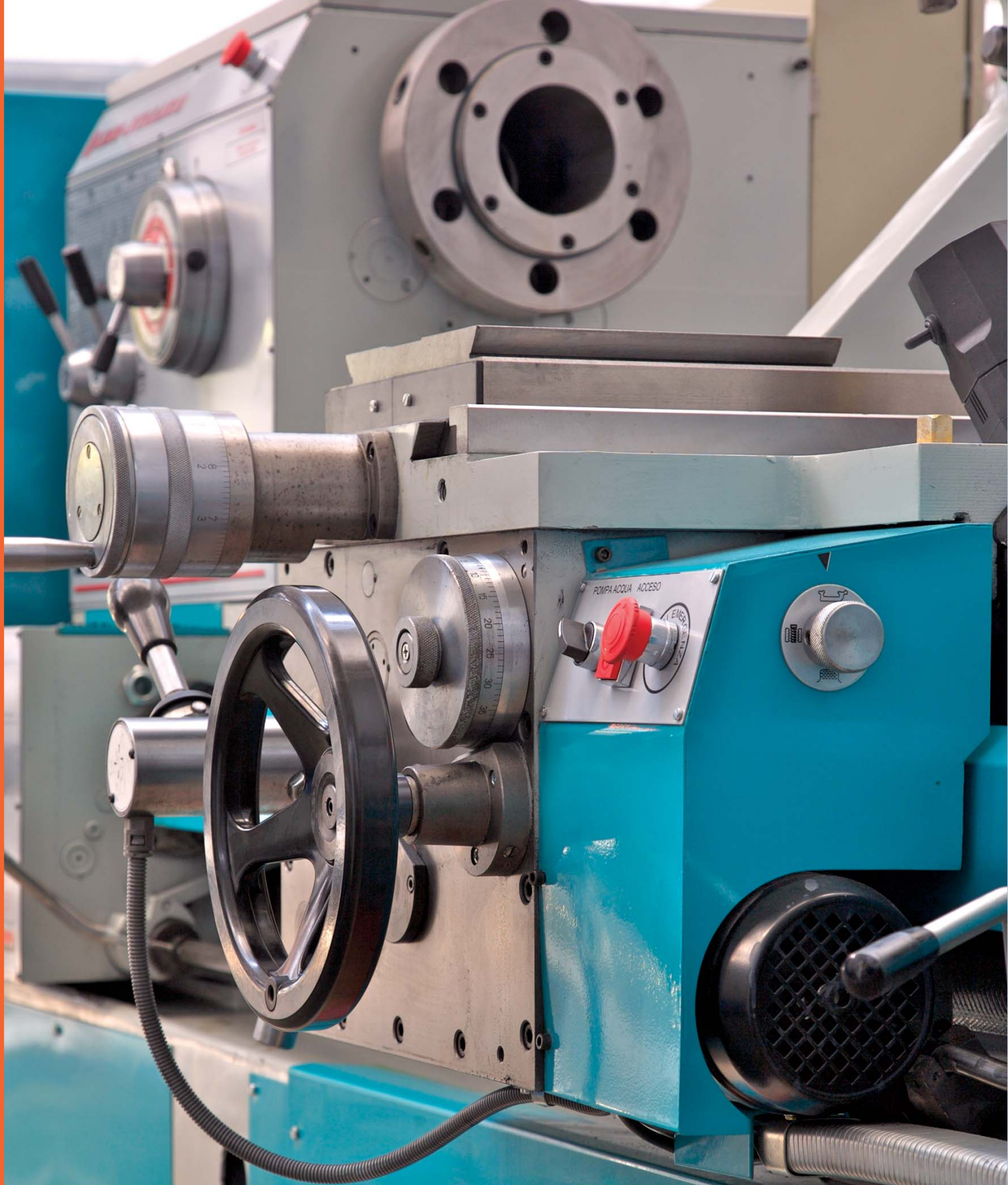
Regarding the liability of Mashstroy under the Law on Non-Serviced Credits Settlement, a decision was made on settle-

ment of the principal and interest payables despite the fact that the Company has initiated court proceedings in relation to this liability against the State Receivables Agency. On 24 October 2006 Mashstroy paid the principle of the debt under the mentioned Law of BGN 1 446 thousand in cash and the interest of BGN 1 863 thousand with compensatory bonds acquired at the value of BGN 1 261 thousand.

The execution of this payment was one of the main reasons due to which the 2006 financial result of Mashstroy is a loss of BGN 1 427 thousand prior to taxation and BGN 1 569 thousand after taxation as compared to the 2005 profit of BGN 134 thousand.

The 2007 basic expectations regarding the production and trade operations of the two machine building companies ZMM Sliven and Mashstroy are as follows:

- Increase of the share of large universal lathes /CU800, CU1000, CU1250, CU1600/ and the boring machines;
- Expansion of the range of offered products /serial production of large lathes CU660, CU760/;
- Growth in the sales in Russia, USA, the Far East and South America.



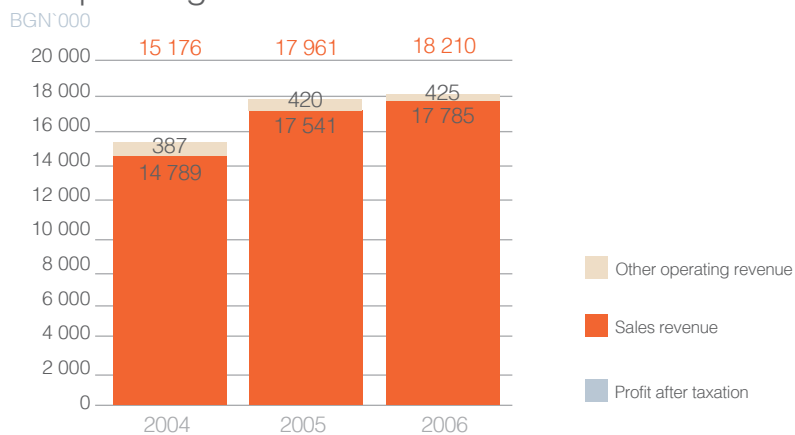


Mr. Minko Taslakov
Chief Executive, Mashstroy

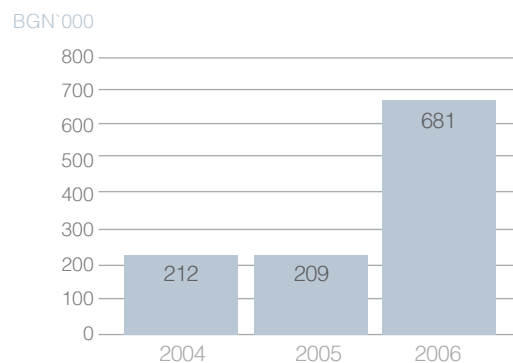
“ In 2006 Mashstroy achieved growth by 8% in the production of universal lathes and growth in the production of CNC metal-cutting machines by 3%. The first NC machines with controlling systems of Fagor, Siemens, Heidenhain, Fanuc were launched on the market. We also demonstrated the first heavy machines of the C850 type with swing over bed of 750mm. For 2007 we aim at further development of the market and production of NC machines, CNC machines and heavy duty universal lathes. We will present the first lathes with CNC control with slant beds to the market. ”

Financial results of ZMM Sliven

Operating Revenue

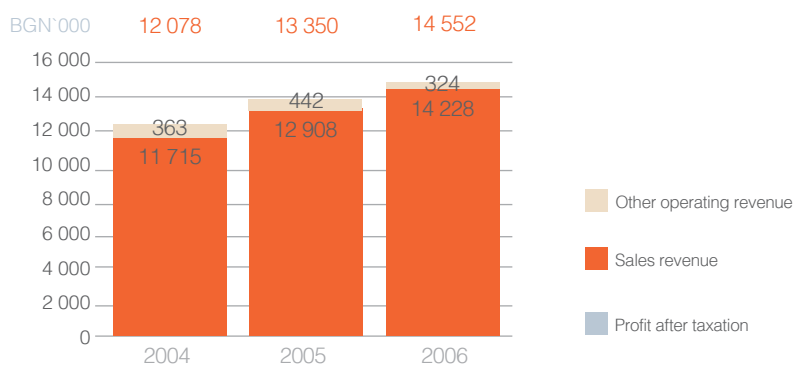


Profit after taxation

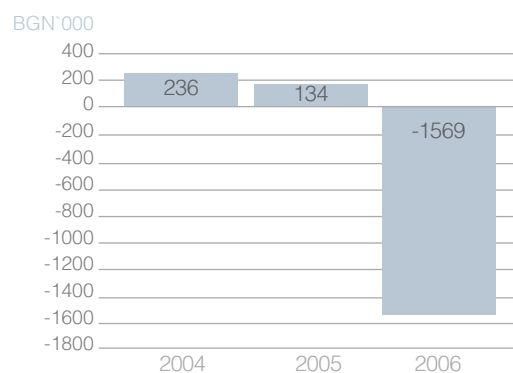


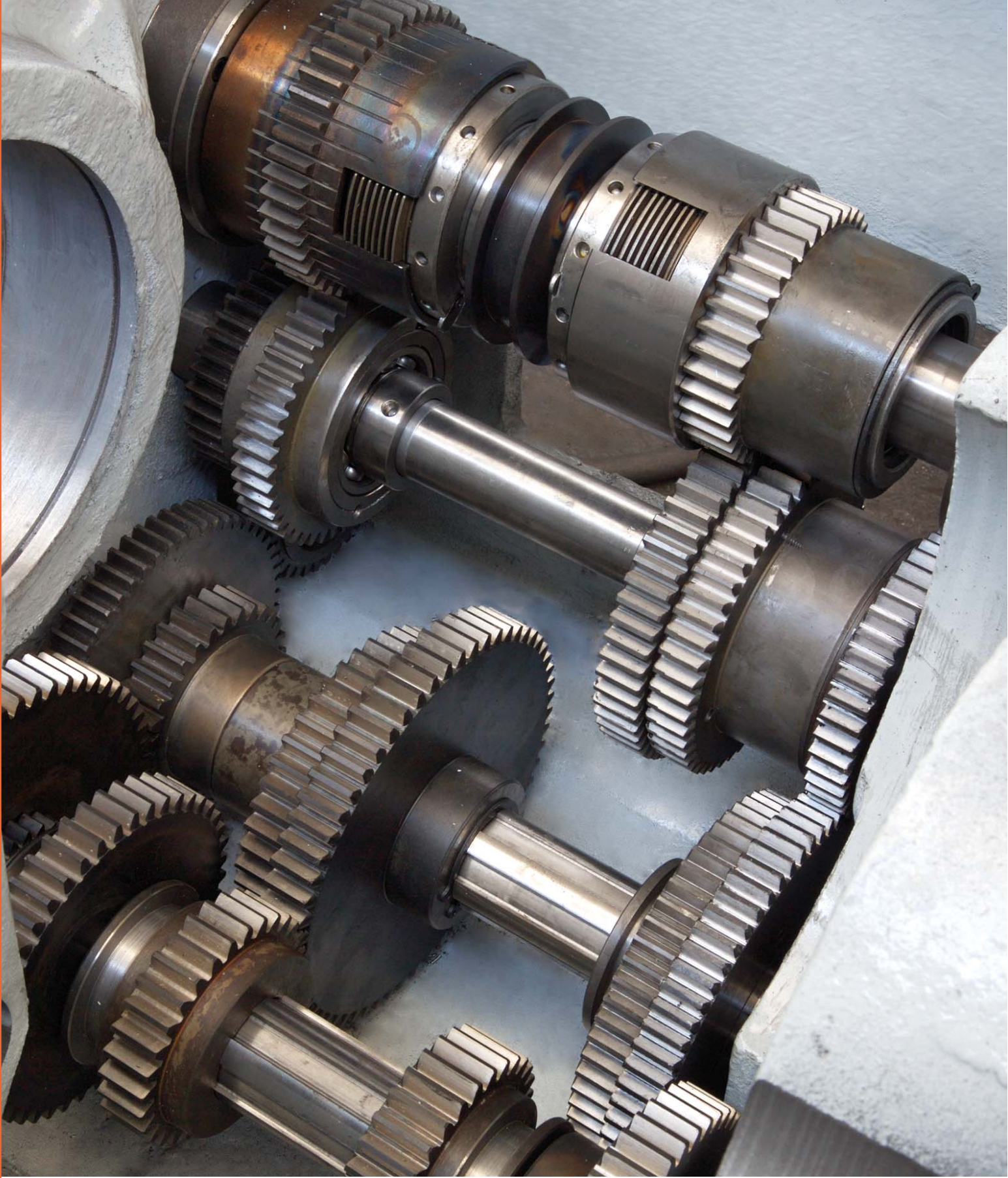
Financial results of Mashstroy

Operating Revenue



Profit after taxation







Mr. Margarit Todorov
Chief Executive, ZMM Nova Zagora

“

The past 2006 was a successful year for our company. We started to master new products for export and the sales of band-saw machines increased. During the last year we also increased the production of the already traditional for us rotation components and the assemblies for metal cutting machines.

”

ZMM Nova Zagora AD

During the last several years there is a trend of shifting the production of machine parts to end products - machines. In 2006 a total number of 36 strip cutting machines was produced.

In 2006 ZMM Nova Zagora realized operating revenue of BGN 4 343 thousand as compared to BGN 4 113 thousand in 2005. Details occupy the biggest relative share of 58.17% followed by the share of machines for the domestic and international markets of 18.90% and the share of units of 14.71%.

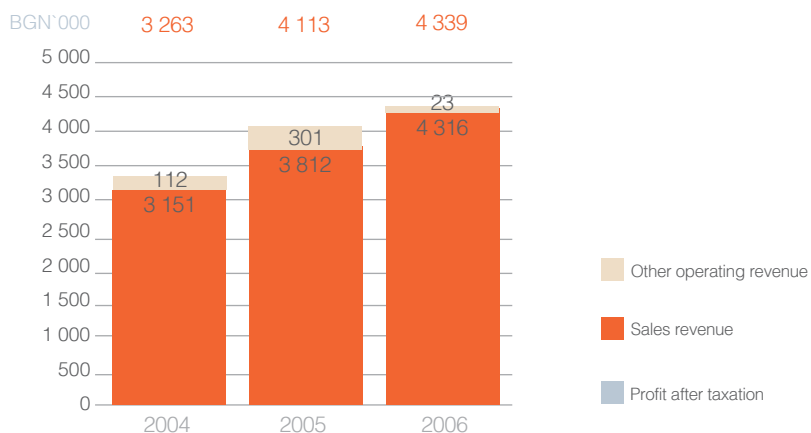
The Company's profit after taxation is BGN 5 thousand as compared to the 2005 loss of BGN 4 thousand.

In 2007 ZMM Nova Zagora will focus its efforts on:

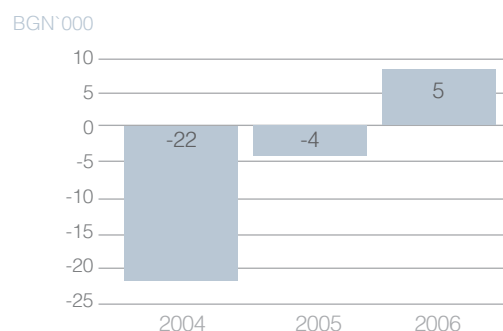
- Laying down of strip cutting machines on the domestic and international markets;
- The production of new units for metal cutting machines intended for export to Russia;
- Introduction of chip conveyors in production for export;
- Expansion of the production capacities at the workshops for units for metal cutting machines;
- Creation of conditions and prerequisites for financing the modernization of the machinery equipment for precise gears.

Financial results of ZMM Nova Zagora

Operating Revenue



Profit after taxation





METAL CASTING



Mr. Boyan Dimitrov
Chief Executive, Leyarmach

“ In November 2007 two new induction furnaces of Inductotherm will be put into commission. This will make possible to increase the production capacity of the melting shop to 15 tons of liquid metal per night shift. This will create the necessary preconditions for the introduction of two shifts work of the moulding sections and achieving 17 tons of moulding per two shifts work. The above said measures shall substantially increase the production and technological capacity of the foundry and gradually we shall achieve a monthly production of 350 tons. Furthermore this shall lead to improved competitiveness of the castings of Leyarmach on both the internal and international markets. ”

Leyarmach AD

The core activity of the Company is casting of bodies and other details for lathes. The products are designed as a basic machine building element and are the most permanent products in terms of innovations.

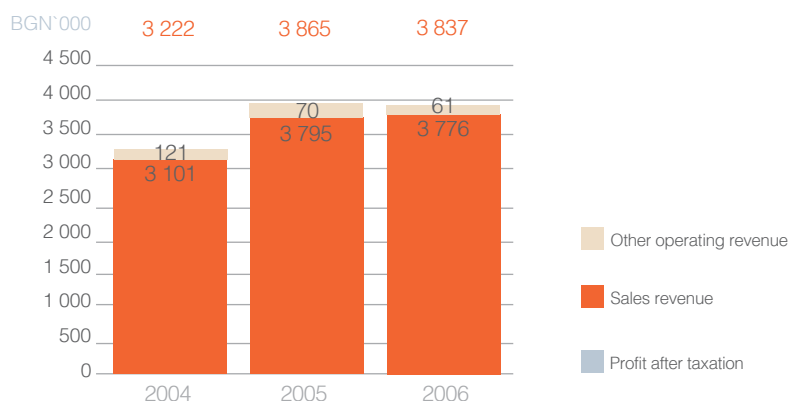
Leyarmach had certain production problems and had to make a strategic decision on its development. Its available furnaces and equipment were not sufficient for ensuring the required quality of produced casts with a view to achievement of good return. On the other hand, the foundry is one of the main suppliers of ZMM Sliven and Mashstroy - it provides 50-55% of the casts used for lathe production but it needs investment so as to be efficient and profitable. Following thorough analyses, the management of IHB made a decision on development of cast production within the system of ZMM Bulgaria Holding and approved an investment program at the value of BGN 1.5 million for restoration and modernization of the capacities of Leyarmach. The aim is meeting the higher requirements on

cast quality and quantity and ensuring environment protection and maintenance of healthy and safe working conditions.

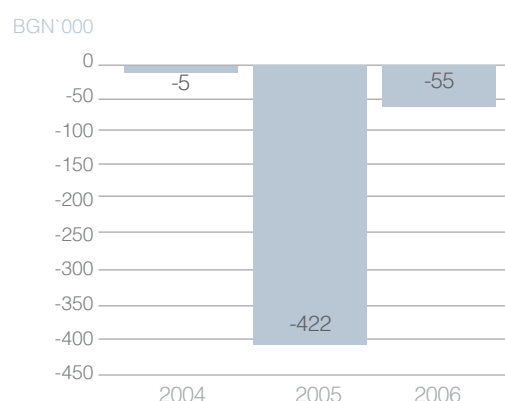
In 2006 a total of 1 991 tons of casts was produced as compared to 2190 tons in 2005. 1 376 tons of the casts or 69.11% produced in 2006 were for the domestic market and 310 tons or 15.57% - for export. At the requests of other customers, 298 tons were produced, representing a relative share of 14.52% of total production and 16 tons or 0.8% for own needs. During the year the coordination between Leyarmach and the machine building works within ZMM Bulgaria Holding group considerably improved in relation to the planning, organization of the production and receipt of the finished production. The number of unsold requested casts was maximally reduced.

Financial results of Leyarmach

Operating Revenue



Profit after taxation



ELECTRIC MACHINES



“

In 2006 our company achieved production growth by 44% as compared to year 2005. We also improved our positions in-country and increased international sales 25 times. In 2007 we shall continue to expand our positions both in Bulgaria and abroad. We are entering the Indian market. Our final goal is to further improve the quality, design, innovation, appearance and competitiveness of our products.

”

Mr. Valentin Filipov
Chief Executive, Elprom ZEM

Elprom ZEM AD

Elprom ZEM produces the following electric machines - synchronous and asynchronous electric motors, asynchronous generators and hydro-generators. The Company also repairs hydro-generators and machines for low and high voltage /LV and HV/.

The produced products are mainly related to the building of new sites and replacement of existing ones in case of failure. The major consumers are companies operating in the power engineering, mining and ore-dressing, cement and food, beverage and tobacco industries, agriculture, water supply and other sectors.

The market strongly depends on world economy, the condition of the Bulgarian economy and the region in particular. The trend of stimulation of ecological power generation is a prerequisite for increase in the volume of construction of facilities for using renewable energy sources - water and wind. This increased the volume of production of hydro-generators and machines for small and large water power plants and of generators and electric motors for wind power plants.

In 2006 Elprom ZEM realized a revenue of BGN 9 842 thousand as compared to BGN 6 317 thousand in the same period during the preceding year, i. e. it increased by 56%. The increase is the result from increased sales of electric machines from BGN 931 thousand in 2005 to BGN 2 174 thousand in 2006. In 2006 there were produced 266 electric motors at the value of BGN 903 thousand and 7 hydro-generators at the value of BGN 1 272 thousand. The rendered

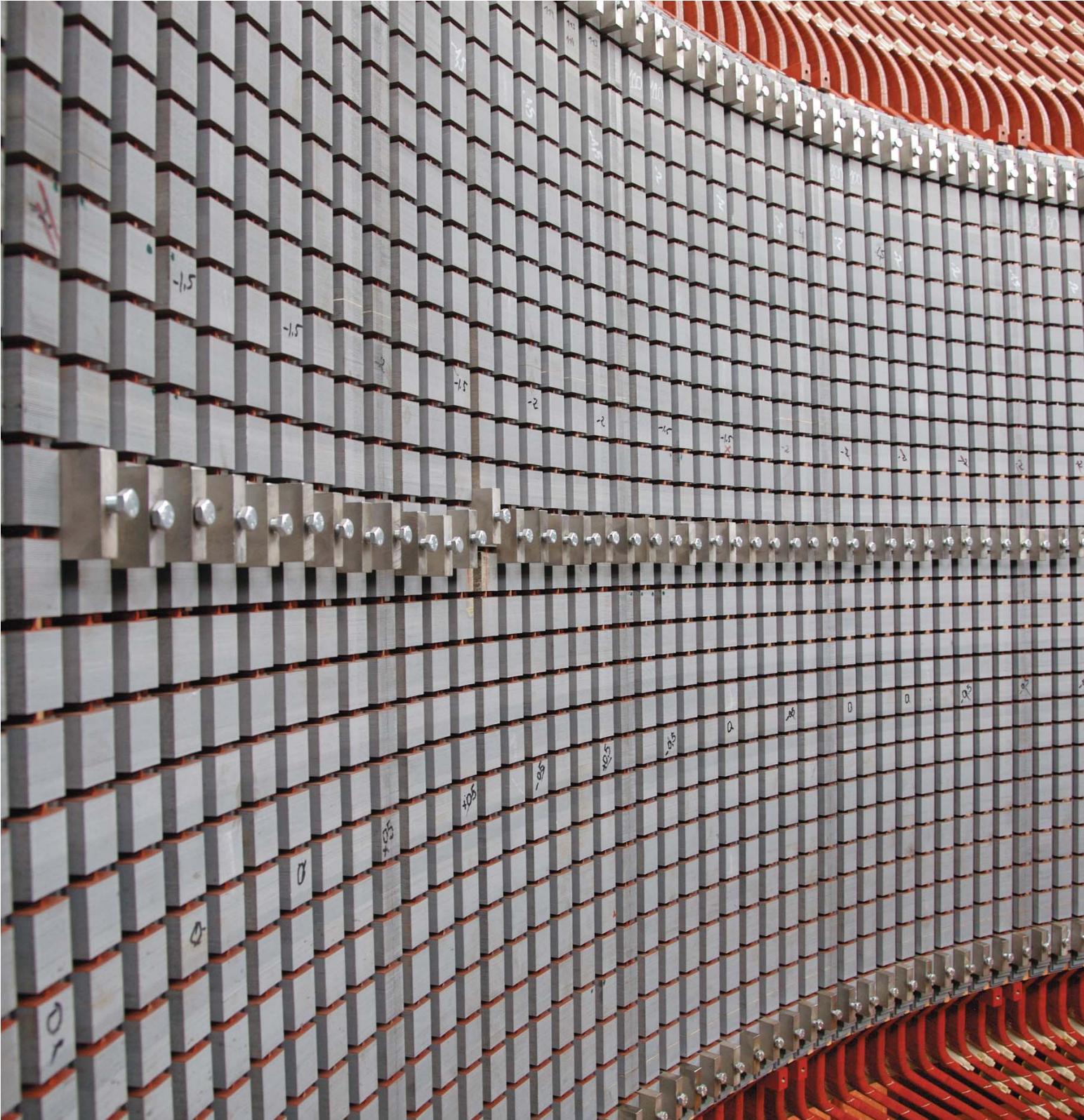
repair services provided revenue of BGN 5 972 thousand, including construction of new sections of Krichim Water Power Plant and repair of a hydro-generator of Pump-Accumulation Water Power Plant, KESH Albania and repair of sections of Chaira Water Power Plant. The other sale revenue amount to BGN 1 695 thousand as compared to BGN 376 thousand in 2005 /materials, rents, scrap, etc./.

In 2006 the division of the co-owned land was voluntarily divided with Hyundai Trafo.

In 2007 Elprom ZEM focuses on production and repair of hydro-generators and increase of the demand for electric motors. In 2007 a VPI-line will be commissioned. The investment purpose is deployment of new production capacities, which completely change the existing technology. Thus, the requirements of potential European partners will be complied with and higher product competitiveness will be ensured. Elprom ZEM will become the only producer in Bulgaria availing with such equipment.

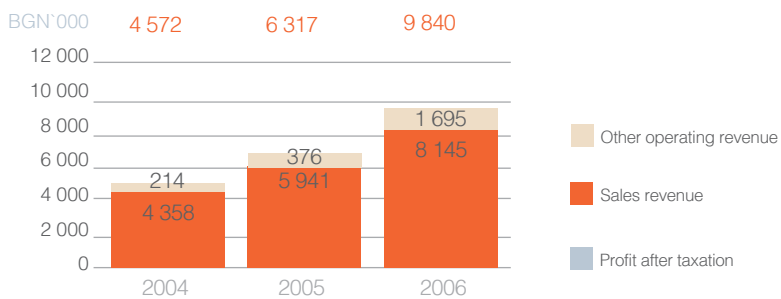
Some EUR 500 thousand was invested in a laser machine for cutting up of sheet material, which is going to improve the efficiency of stator and rotor packages cutting up, which are used in the process of electric motors and hydro-generators production. The machine will be deployed in the second half of 2007.

The 2007 Investment Program includes events related to quality and efficiency improvement, i. e. repair of technological facilities and machines, improvement of labour safety, hygiene and conditions - repair of roofs and buildings.

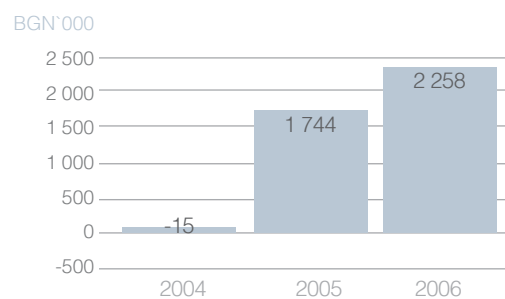


Financial results of Elprom ZEM

Operating Revenue



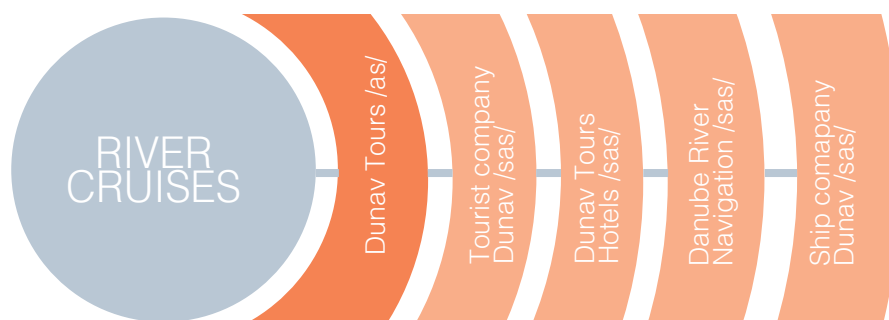
Profit after taxation





The marketplace

The world trends regarding the tourist travel by ship are towards increase of the number of cruises and tourists using this kind of holiday. This concerns not only sea cruises but also river cruises.



RIVER CRUISES



2006 will remain in the history of the company with the biggest investments. Two new passenger ships were bought - the four star Heinrich Heine ship and the five star Elegant Lady ship. We also expanded the market share by organizing cruises along the Rhein, Mein and Mozel rivers and the canals.

In 2007 for the first time we shall serve tourists from Canada and the Scandinavian countries. We are also actively developing the Bulgarian and Russian markets.



Mrs. Katya Stoyanova
Chief Executive, Dunav Tours

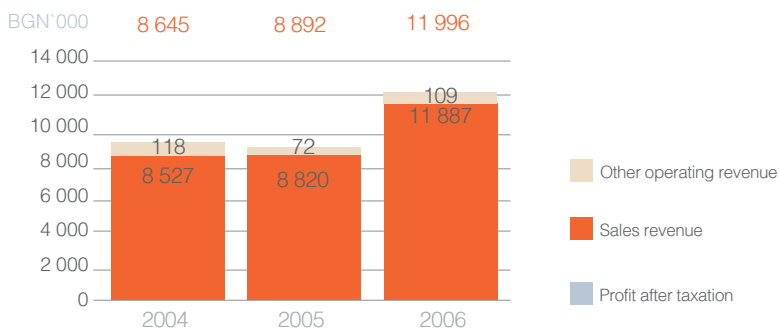
Dunav Tours AD

In 2006 Dunav Tours expanded its fleet with 2 new passenger ships. In July 2006 Dunav Tours, through its subsidiary Dunav Tours Hotels, purchased Heinrich Heine - a four-star luxurious motor ship navigating along Rhein - Main - Danube and availing with a swimming-pool, solarium and capacity of 108 persons. The transaction value is EUR 4,02 million. In December 2006 Dunav Tours, through Ship Company Dunav - another of its subsidiaries, became the owner of Elegant Lady - a five-star motor ship constructed in 2003, navigating

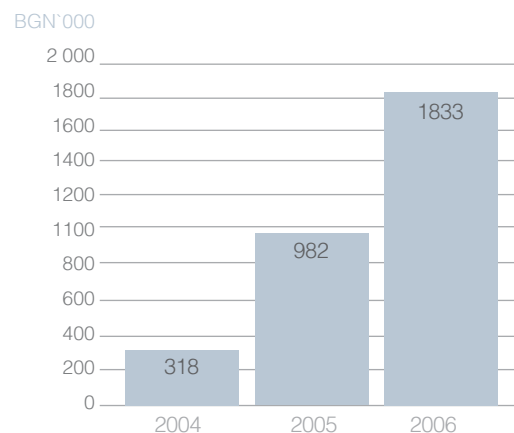
along Rhein and Mosel and of capacity of 128 persons. The transaction value is EUR 7,5 million. The ship is chartered to a Dutch tour operator and usually transports Canadian tourists. Thus Dunav Tours already operates with 5 ships. The 2006 revenue of the Company, on consolidated basis, amounts to BGN 11 996 thousand, BGN 11 887 of which represents operating income - charting of the four ships /Elegant Lady will realize income in 2007/.

Financial results of Dunav Tours /consolidated/

Operating Revenue



Profit after taxation



FURNITURE PRODUCTION



“

During 2006, Avgusta Mebel continued to exercise a strategy targeted at strengthening its positions in the dynamic environment of the European market. Through continuous product enhancement, technological renewal and personnel improvement, we keep raising the image of our company making it a respectable and desirable business partner.

”

Mrs. Tamara Hristova
Chief Executive, Avgusta Mebel

Avgusta Mebel

The furniture and wood procession sector in Bulgaria is a priority, successful and quite dynamic sector. The furniture production in Bulgaria develops rapidly and ranked second among the countries from Central and Eastern Europe, occupying a growth of 22% according to an international study. The sector also needs modernization, quick transfer of new technologies, modernization of facilities and use of modern materials to fully meet the European directives and become even more competitive. The focus is on quality products combining design and technology and tradition.

In the last several years Avgusta Mebel restructured its markets and changed the range of offered products. Hotel equipment represents 72% of the production sold in 2006, while the share of household and other furniture is 28%. The development of new markets for the Company is a permanent process - some 70% of the annual production represents new products - the applied technologies, used materials and design are updated. For example, 72% of the production sold in 2006 represents new models. Part of the new hotel equipment and the models of the Company for participation in IMM - Cologne'2006 Furniture Exhibition are of own design. The new customers attracted from the EU countries replaced the markets of the former Commonwealth of Independent States - Russia, Georgia, Azerbaijan, Uzbekistan, etc. The following companies have been major customers of the Company for the last several years: La Redoute - France /wardrobes and cabinets/, Mamas and Papas - Great Britain

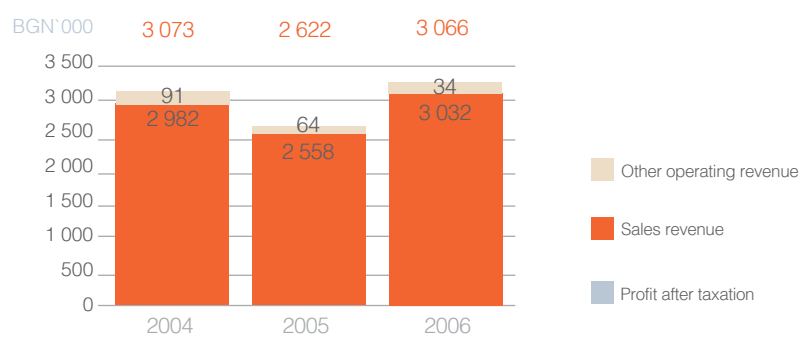
/nursery beds and cabinets/, Mountain Beech - USA /broad boards/ and Gilos - Greece /hotel furniture and household furniture - tables, cabinets and beds/. The EU markets stagnation and the mass penetration of cheap Chinese goods decreased the volume of sales in France and USA in the last two years. In 2006 contacts were established with new customers from France, Great Britain and Ireland; moreover, the hotel equipment produced for and forwarded to the Irish company Castlebrook forms 44.6% of the total sales of Avgusta Mebel for the year. The Company relies on long-term partnership with its new customers and expects sale growth on these markets in 2007.

In 2006 Avgusta Mebel fulfilled an order for furniture of Tokouda Hospital in Sofia and medium-size hotels. The projects were implemented in cooperation with Mebelni Kashti Ralitsa and Interservice Ouzounovi, for which there are also other orders - 16.3% of the sales in 2006 in total. To strengthen its domestic market positions, the Company designed and installed 4 new models at the end of 2005 and 2 new models in 2006, which are displayed in the showroom of Interservice Ouzounovi in Varna. The cooperation with one of the leading importers and distributors of furniture and equipment in Bulgaria and one of the biggest suppliers under transactions for complex hotel furniture and equipment in the country and abroad in the equipment of public buildings and hotels will continue in 2007.

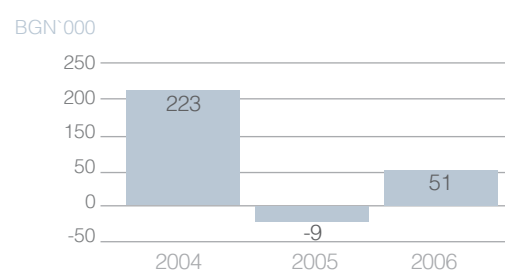


Financial results of Avgusta Mebel

Operating Revenue



Profit after taxation





OTHER

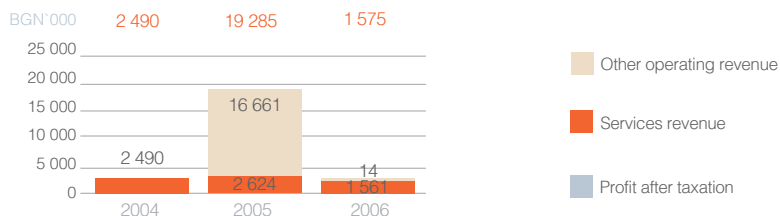
Privat Engineering AD

The basic activity of Privat Engineering is related to the management of projects in various sectors, insurance and reinsurance intermediation and consulting services. The major portion of the 2006 revenue represents revenue from interest on granted loans - BGN 631 thousand, interests on deposits - BGN 326 thousand, revenue from rendered services - BGN 394 thousand, insurance - BGN 220 thousand and other. The considerable decrease in revenue, profit respectively, is the result from the fact that in 2005 the Company sold its own real estate and site at the place of Boudzhaka near Sozopol, real-

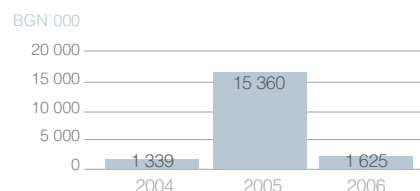
izing extremely high income and profit.

In the spring of 2006 Privat Engineering invested in two new companies - Emona Shipping Ltd and Marciana Shipping Ltd, which ordered the construction of two 9-800 ton multi-purpose ships at Bulyard Shipbuilding Industry. The ships are intended for unrestricted region of navigation and shipping of bulk freights and containers. The value of each ship is EUR 13.5 million. The first ship is to be delivered by 01.01.2008 and the second - by 01.04.2008.

Operating income



Profit after taxation

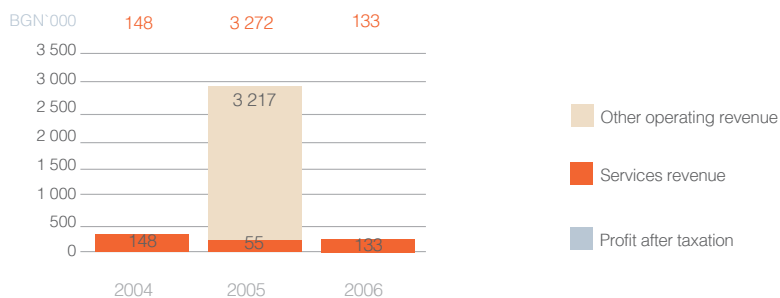


KLVK AD

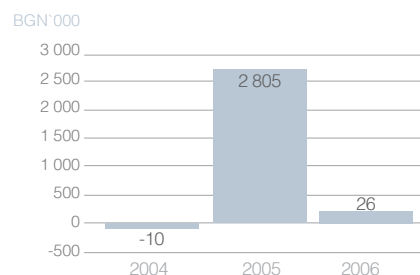
The 2006 operating revenue of KLVK amounts to BGN 133 thousand. The considerable decrease in revenue, profit respectively, is the result from the fact that in 2005 the Company sold its own real estate. The 2006 operating revenue includes

revenue from rendered services and provided collateral guarantees. KLVK also realized financial revenue from interests on deposits at the amount of BGN 200 thousand.

Operating income



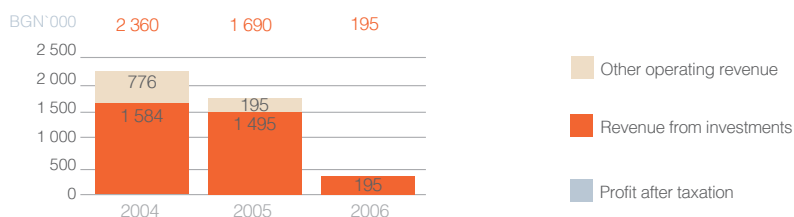
Profit after taxation



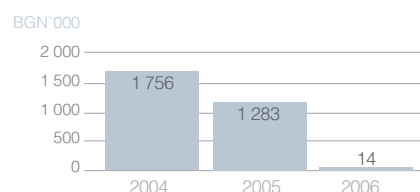
International Industrial Holding Bulgaria AD

The major part of the 2006 revenue of the Company represents revenue from consulting services.

Operating income



Profit after taxation

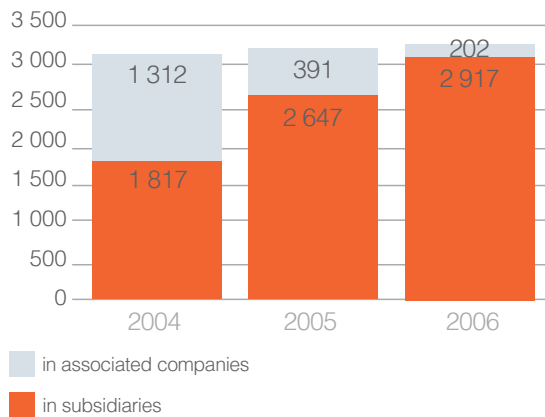


Personnel. Personnel development

As at 31 December 2006 IHB has 9 employees in total, of which employees with higher education represent 67% of the total number.

As at the end of 2006 the IHB Group has 3 119 employees in total, of which 202 employed by associated companies. Besides the employees hired under labour contracts, some 600 persons work for Bulyard Shipbuilding Industry - employees of the companies - shipyard subcontractors.

Information about the personnel of IHB on consolidated basis



The specifics of the operations of IHB, its sector portfolio and development of its group individual companies predetermine the requirements to its personnel. For the purpose, the management of the Holding applies a policy directed at enhancing the qualifications of hired employees who are in charge of the various aspects of the company activity. The development of priority sectors and operations and the related new projects imply what experts are needed. The most urgent issue at present is the establishment of an internal control unit, which is to start functioning on 01 July 2007 according to plan.

In the course of time, the issue concerning the training of employees with secondary special and engineering and technical education becomes quite serious. Lots of young people do not want to work in the production and industry sectors. The settlement of this issue directly affects not only personnel provision but also production quality and the opportunities for development of research and innovation activities at the companies. To solve the problem, the management of IHB works in close cooperation with the academic society in relation

to training of students at technical schools and universities, participation of representatives of the companies' managing bodies in the technical university boards, hiring of trainees and university graduates.

The various programs for human resources development and employment encouragement of the Ministry of Labour and Social Policy, financed by the pre-accession funds, form another sources for solving this problem. At the beginning of 2007 three of the Group companies (Bulyard Shipbuilding Industry, Dunav Tours and Elprom ZEM) presented to the Ministry their conceptual projects for employment under Budget Line BG 2005/017-353.10.01 - grant scheme under the PHARE Program.

Events enhancing the corporate culture of IHB

The tradition of organizing sports events for the Holding and its companies continued in 2006 as well. Sports autumn 2006 for summer sports was held in Albena in the autumn. The events were attended by representatives of all companies and thus, it was again ascertained that this is a good way of strengthening the corporate culture, raising contestant spirit, competitiveness and at the same time, teamwork among the companies in IHB.

The traditional award for Director of the year within IHB for 2006 was given to Mr. Georgi Dobrev, Executive Director of ZMM Sliven. Employee of the year of each one of the companies was elected and awarded.

2. Liquidity

In 2006 IHB met its needs for providing for operating expenses by using both own and borrowed funds. The own funds available are the result of the operating income of the Holding, namely:

- Income from transactions with investments /sale of shares and financial operations/;
- Dividend income;
- Interest income on interest-bearing receivables from subsidiaries as well as from other companies in relation to deferred payments under shares sale agreements, as well as interest income on deposits;
- Service fee income and others.

In 2006 IHB utilized borrowed funds in the form of corporate convertible bonds at the total amount of BGN 5 250 805 issued in 2004. The raised funds were used for financing the investment activities of the Holding and its group companies, described in detail in the Capital resources item. At the end of 2006 IHB signed an agreement with Bank DSK for credit limit for issuance of bank guarantees and working capital financing of the Holding and/ or its group companies at the amount of BGN 4.5 million, of which up to BGN 3 million in the form of a revolving loan. In March 2007 a guarantee of BGN 100 thousand was issued against the limit in favour of Regional Customs Directorate (RCD)- Bourgas as a collateral for possible customs liabilities of the subsidiary Dockyard Port Bourgas. The management of IHB may decide on using the rest of the funds to finance its operations or the operations of other Group companies, if necessary.

The main source of cash funds of IHB in 2006 was the dividend income received from subsidiaries, followed by service fee income, interest income and gains from sale of shares of the companies. The Holding redirected some of these funds to finance its investment program. For that purpose, it used also the free cash proceeds from the bonds issue.

The sale of the investment projects in the real estate sector in 2005 also contributed to the improvement of the liquidity of IHB in 2006. The funds granted by IHB to the two subsidiaries in connection with the projects were fully repaid. That created the possibility of redirecting the free cash funds towards other projects in 2006 and 2007.

The IHB Group subsidiaries cover their expenses with own funds, advance payments by customers, open letters of credit, leasing, bank loans and internal financing through loans among the Group companies. In 2007 some subsidiaries are going to realize their investment intentions through funds raised as a result from the issuance of new shares in their capitals by their shareholders.

Sources of liquidity for IHB in 2006

Internal sources

As at 31 December 2006 the available cash and cash equivalents of the IHB Group amount to BGN 17 310 as compared to BGN 21 864 thousand at the beginning of the year. The blocked cash of BGN 4 717 thousand include:

- BGN 4 704 thousand as collateral of bank guarantees in favour of third parties;
- BGN 13 thousand under an advance payment received, which may not be utilized until completion of works stage.

The blocked cash of BGN 4 944 thousand as at 31 December 2005, securing letters of credit open in favour of suppliers in connection with activities related to shipbuilding and ship repair, was unblocked in 2006.

The cash available as at the end of the year is the result from:

- Consolidation of the financial results of Bulyard Shipbuilding Industry, the production capacities of which were gradually loaded with the construction of new ships in 2006;
- The free cash of IHB raised through the bonds issue;
- The good results of the Group companies achieved in 2006.

In 2007 the free cash will be used for financing of the investment projects of IHB and its companies according to the development priorities in mid-term aspect in the following sectors: maritime business /shipbuilding and ship repair, port operations, classification and certification, sea transport/, river cruises and machine building. The particular 2007 investment intentions of the management are described in the Foreseen development of the company item.

As at 31 December 2006 the receivables of the IHB Group amount to BGN 34 217 thousand and represent:

- BGN 1 185 thousand, the major portion of which represents receivables in respect to deferred payments under share sale agreements;
- BGN 33 032 short-term receivables, representing trade receivables, receivables from affiliates, advance payments and deferred expenses, tax, awarded and other receivables.

After the restructuring of the portfolio of IHB in 2005 and 2006, the income from stakes and participations have become a major income item for the forthcoming years in consideration of the specific activities of the Holding - acquisition and management of financial assets. In 2006 BGN

1 218 thousand was reported as dividend income and the positive trend is expected to continue in 2007 as well. At the same time a portion of the realized profit will remain for reinvestments in the companies in relation to priority sectors and activities.

In 2006 the income from sale of services was the second most important source of income for IHB. Growth is expected in 2007 also in relation to agreements for bank and corporate guarantees issued to subsidiaries to secure their liabilities to customers.

The sale of the remaining stakes of shares of two of the portfolio companies to their majority owners also contributed to the good liquidity in 2006. The Holding sold a portion of the shares held in the capital of Bulgartabac Holding through taking advantage of the favourable market conditions. The increased stock exchange price of the shares of this company also had a positive effect. IHB revalued the shares of Bulgartabac Holding held for sale and reported gains at the amount of BGN 281 thousand. The income from transactions with investments forms a relatively constant source of liquidity as the sale of shares depends on market conditions and demand. In 2007 no large transactions with investments are envisaged as the Holding has already completed the restructuring and consolidation of its investment portfolio.

The main part of the interest income includes interest-bearing receivables from subsidiaries and other companies in respect to deferred payments under share sale agreements. The foreseen decrease in 2007 is due to the fact that most of the subsidiaries completed their engagements to the Holding in connection with loans granted. IHB redirected the requests of its subsidiaries for financial resources towards the banking institutions in order to be able to concentrate its own cash funds in priority investment projects. At the same time the share sale agreements with deferred payment are being gradually finalized. A decrease in free deposit cash is also envisaged in relation to carrying out the investment activities planned for the year. IHB will continue to exercise the option under Article 280 of the Commercial Act for granting loans to its subsidiaries and acceptance of loans from them, which improve the liquidity of the group through the possibility of using temporarily free cash and their more effective utilization.

In relation to the credit of Bulyard Shipbuilding Industry for provision of bank guarantees to the owners of the three ships with construction Nos 516, 457 and 515 and in compliance with a decision of the General Meeting of Shareholders of IHB, in 2006 the Holding issued two corporate guarantees, and namely:

- A corporate guarantee of EUR 4 280 850 and USD 3 729 018 to secure the third advance payment received by Bulyard Shipbuilding Industry for the building of ship with construction No 516. As a result of a fulfilled obligation to the ship buyer Varna Maritime, the

guarantee was closed on 15 December 2006;

- A corporate guarantee of EUR 3 433 424 and USD 2 977 531 for the third corporate guarantee made by the buyer Georgi Maritime for ship with construction No 457. As a result of a fulfilled obligation to the buyer, the guarantee was closed on 2 May 2007.

The corporate guarantees are secured by first mortgage and first registered pledge on machinery and equipment owned by Bulyard Shipbuilding Industry, their total carrying amount being BGN 4 065 thousand as at 31 December 2006.

The first corporate guarantee for the third ship with construction No 515 of Navigation Maritime Bulgare is to be issued in 2007.

The corporate guarantees are not related to cash outflow - they represent conventional liabilities that may arise in case of non-observance of certain terms and conditions of the agreements signed. At the same time, they may be treated as an external source of liquidity insofar as the banks and customers consider them collaterals of potential liabilities and prove the stability of IHB and the Group as a whole.

External sources

The possibilities to use bank loans, lease and grant schemes, loans from associated companies, issue of shares (capital increase) and issue of bonds can be mentioned as external sources.

After the early repayment of the loan granted by Bank DSK at the end of 2005, the debenture loan became the only external source of liquidity for the Holding in 2006. Its maturity date is 2 July 2007 when the total borrowed amount is to be fully repaid or the loan is to be repaid through conversion of the bonds into shares. Portion of the principal of the debenture loan or the total loan may be repaid through conversion of the bonds into shares by a due decision of the General Meeting of Shareholders of IHB. The remaining portion of the loan principal, which is not converted into shares, may be made as a single transaction on maturity of the debenture loan together with the last sixth interest payment. In relation to the investment program of IHB, its Management and Supervisory Boards intend to propose that the General Meeting of Shareholders vote on conversion of the bonds into shares. If it is decided so, the capital of the Holding will be increased by the new shares, while the funds will be used for financing of priority investment projects.

In 2005 IHB ensured the issuance of bank guarantees at the amount of EUR 671 thousand by Bank DSK as security for liabilities of Elprom ZEM under an agreement signed with a customer. At the end of 2006 an agreement for credit limit of BGN 4.5 million for issuance of bank guaran-

tees and working capital financing of the Holding and/ or its Group companies, up to BGN 3 million of which in the form of a revolving loan, was signed with the same bank. The two contracts are secured by second registered pledge of the business of the subsidiary Dockyard Port Bourgas AD as totality of rights, obligations and factual relations and entry of basic assets into the respective registers. As of 31 December 2006 there are no bank guarantees issued against the credit limit.

In March 2007 Bank DSK issued a guarantee of BGN 100 thousand to RCD - Bourgas to secure possible customs liabilities of Dockyard Port Bourgas in relation to A-type customs warehouse located on its territory. The credit limit is a potential source for financing the activities of the holding company and implementation of its development plans.

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

On 26 July 2005 Bulyard Shipbuilding Industry signed a contract with two Bulgarian banks for a syndicated revolving credit to secure the issuance of bank guarantees for advance payments of customers. The credit limit is EUR 12 500 thousand and USD 10 900 thousand. The repayment term is 25 July 2009. On 27 March 2006 the credit limit was increased to EUR 12 505 thousand and USD 11 015 thousand respectively. On 17 October 2006 a second contract for a syndicated revolving credit was signed to secure the financing of payments to suppliers by direct bank transfers and issuance of letters of credit and bank guarantees. The credit limit is EUR 5 million and is to be repaid by 25 April 2009. The two credits are secured by first mortgage of land and buildings and first registered pledge of machinery, plant and equipment of the shipyard of a total carrying amount of BGN 13 550 thousand as at 31 December 2006. As at the same date there are 9 open guarantees within the credit limit for bank guarantees of Bulyard Shipbuilding Industry at the total amount of EUR 11 982 thousand and USD 9 670 thousand /approximate value in BGN - BGN 34 077 thousand/. As at 31 December 2006 the bank guarantees are also secured by promissory notes at the value of EUR 13 537 thousand and USD 5 702 thousand, the avals being provided by Bulyard and individual participation of the main shareholders. The second credit is secured by promissory notes at the value of EUR 5 million, the avals being provided by Bulyard.

In relation to the contract signed with Mitsubishi Corporation, the credit limited for bank guarantees will be increased. The potential participation of Bulyard Shipbuilding Industry in large projects related to military shipbuilding has imposed

additional requirements with regard to the investment program of the shipyard so as the latter may meet the higher criteria in this production sector. The approved 2007 Investment program of the Company is for over EUR 3 million and envisages purchase of new equipment, construction and equipment of a blasting and drying chamber. Part of the funds will be provided through increase in the capital of Bulyard Shipbuilding Industry and part - under the form of a special purpose bank credit.

The various programs for human resources development and employment encouragement at the Ministry of Labour and Social Policy, financed by the pre-accession funds, form another source of financing of the Group's operations.

At the end of 2005 Bulgarian Register of Shipping won a competition for state subsidy by the National Innovation Fund for a scientific and applied project for development of technology for inspection and appropriation of a ship class and an Internet-based system for inspection management. The term of the project is two years, and it will be implemented in cooperation with experts of the Technical University in Varna. Thus the Register will meet one of the conditions for its recognition by the European Union. The successful deployment of this technology will contribute to the synchronization of the Register's rules and regulations with the new requirements on shipbuilding and navigation safety and security issued by the International Maritime Organization /IMO/, creation of electronic database and the possibility for inspectors' work in real time.

In May 2006 Elprom ZEM also signed a contract for financing from this fund of a project for development of a new insulation system, which will ensure the design and development of machines with high power efficiency or power saving electric machines, i. e. this will improve the exploitation characteristics and increase the quality of produced machines. The subsidy will enable the Company to implement its investment program and represents a prerequisite for production capacity increase in 2007.

In 2004 and 2005 Leyarmach and Elprom ZEM obtained financing from the Labour Conditions Fund for provision of healthy and safe labour conditions to its employees. In 2006 such subsidy was granted to Bulyard Shipbuilding Industry for a project for construction of a closed blasting and painting chamber meeting the European standards. The project is expected to be completed in 2008. In October 2006 the Fund approved another project of Elprom ZEM for sanitation of the generation workshop building and repair and modernization of the crane runway in the workshop. A contract is to be signed, while the project period is 3 months.

As a source of financing of various economic events may be used the funds under governmental and EU structural fund programs for the period 2007-2013, particularly the funds

granted under the Human Resources Development and Development of Bulgarian Economy Competitiveness Operational Programs. They will support actions related to increase in employment rate, provision of better job opportunities, improvement of education level, increase of production capacity and efficiency of the companies in the country, facilitation of the access to financing, stimulation of business and development of knowledge and innovation based economy through encouragement of scientific research and innovation. The projects under the operational programs are expected to start in the second half of 2007.

At this stage the other Group's companies plan no material changes in the utilization of borrowed funds required for carrying out of their operations - mainly bank credits for working capital and special purpose financing of investment activities, including leasing and grant schemes.

The need of borrowing new funds within the Group may arise in relation to the projects described in Item 3. Capital resources. This need will be assessed in each particular case depending on required investments and available free cash of IHB and the Group as at the particular moment.

3. Capital resources

Convertible bonds

The funds collected by IHB through the convertible bonds issue in 2004 were one of the sources of capital funds for financing the priority investment program projects in 2006 as well.

The funds collected through the issue were used for investments of the holding company and of its subsidiaries, mainly in the following priority sectors: real estate /till the end of 2005/, maritime business, river cruises and machine building. IHB financed the projects of its group companies in these sectors in the form of granted loans and/ or acquisition of shares in their capitals, including subscription of shares from the increase in their capitals. Priority projects are financed in the order of their arising. The loans granted in 2004 and 2005 were fully repaid by the subsidiaries and the available funds were used by IHB for granting new loans in 2006 and 2007, have been invested or are to be invested in projects as per the stage of their development and need of financing. The used forms of investment financing and the movement of available free funds of the Holding make it difficult to precisely calculate the debenture loan funds disbursed in relation to the individual projects, some of which undergo changes.

Major investments financed with funds raised through the issue:

- The Holding granted loans to KLVK and Privat Engineering to finance their investment projects in the real estate sector. The two subsidiaries sold the estates purchased in 2005, fully repaid the funds borrowed, while IHB ceased investing in this sector. The accelerated realization of these investments decreased the risk of changes in the market conditions and enable the redirection of these funds to other priority sectors and projects in 2006 and 2007;
- In April 2006 IHB purchased from Dockyard Odessoss its share of 10% in the capital of Bulyard for USD 2 million, thus the interest of the Holding in the company reached 61.50%. This became possible after the reimbursement of the granted funds following the sale of the real estates;
- At the beginning of 2006 the subsidiaries Emona Shipping Ltd and Marciana Shipping Ltd agreed the building of two 9 800-ton multi-purpose ships at Bulyard Shipbuilding Industry. The vessels are intended for unrestricted region of navigation and shipping of bulk freights and containers. The design of the new ships will be the improved version of ship with construction No 287 - more modern and bigger container capacity. The value of each ship is EUR 13.5 million. The payments will be made in EUR and USD. In August 2006 the Holding partially financed the second advance payment for the first ship in the form of a loan of USD 480 thousand. As at 31 December 2006 the

remaining amount due under the loan amounts to USD 55 thousand;

- In March 2006 IHB granted a loan of BGN 110 thousand to Dockyard Port-Bourgas for construction of a new road to the port, which was repaid. During the second half of the year the company received another financing from the Holding at the amount of EUR 224 thousand for the project for expansion of the port terminal;
- At the beginning of 2006 IHB granted a loan of BGN 600 thousand to ZMM - Bulgaria Holding to support it in its participation in the privatization of Balkancar - Sredets, Sofia. In January 2006 the Privatization Agency initiated a procedure for the sale of 69.99% of the capital of this company at the minimal price of BGN 20 million. For the purpose, ZMM - Bulgaria Holding established a new 100% owned subsidiary under the name of Bulcari to participate in the publicly announced tender, which was classified second. Following the privatization procedure completion in July 2006, the funds of the Holding were fully reimbursed;
- In September 2006 IHB granted a loan of BGN 120 thousand to Elprom ZEM, a subsidiary of ZMM - Bulgaria Holding, which was to be repaid by 31 March 2007. At the end of 2006 the amount due amounts to BGN 57 thousand. The funds were granted for temporary financing of the operations of Elprom ZEM in relation to undertaken contractual obligations and will be duly repaid. Regarding some of the priority investment projects, besides funds collected through the bonds issue, IHB used its own funds depending on the amount of the investment and cash and cash equivalents available as of the particular moment.

Bank loan

Following the early repayment of the liability under the investment loan of USD 2 million to Bank DSK at the end of 2005, in November 2006 IHB signed a new agreement for credit limit for issuance of bank guarantees and working capital financing of IHB and/ or its group companies at the amount of BGN 4.5 million, up to BGN 3 million of which in the form of revolving loan with the possibility of utilization in BGN, EUR and USD. By now IHB has not used these funds but it may decide to use them to finance its operations, if necessary. In March 2007 a bank guarantee of BGN 100 thousand was issued to Dockyard Port - Bourgas for the credit. The remaining funds may be used for financing of the operations of the Holding or its group companies.

Information on the material engagements of IHB to incur capital expenses

IHB incur capital expenses in two directions: granting of loans to its group subsidiaries, related to priority sectors, which they

used to finance their projects and acquisition of shares in their capitals, including subscription of shares resulting from capital increase.

In August 2006 Bulyard expressed its intention to purchase the remaining 25% of the capital of Bulyard Shipbuilding Industry from Navigation Maritime Bulgare. The value of the transaction, which was agreed at the end of 2003, is USD 5 555 555 but its conclusion required permission by the State, in the capacity of sole owner of the capital of Navigation Maritime Bulgare. At the beginning of 2007 the Minister of Transport, in the capacity of Body exercising the rights of the State, gave a permission to Navigation Maritime Bulgare to terminate its shareholding in Bulyard Shipbuilding Industry AD through the sale of its share in the company. On 6 March 2007 Bulyard AD exercised its option under the shareholders' agreement and became sole owner of the shipyard, and the control of IHB therein reached 61.50%. The finalization of the undertaken investment in the sector was realized through increase in the capital of Bulyard AD, and the proportional share of it of the Holding amounts to USD 3 559 579.

On 20 April 2007 the capital of Bulyard was increased, for the second time, by BGN 4 674 thousand. IHB financed its shareholding with own funds - the result from its operations, a portion of the free bonds issue cash and loans from its subsidiaries. The shareholders of Bulyard used the raised funds to subscribe new 5 million shares in the capital of Bulyard Shipbuilding Industry proportionately to their shareholding. The capital expenses are to ensure the basic financing of the approved investment program for 2007. In this connection, a purpose credit of EUR 1 million was agreed with SG Expressbank - Sofia Office.

In April 2007 the capitals of the following subsidiaries, 100% owned by the Group, were increased:

- Privat Engineering - through issuance of 140 000 new ordinary registered voting shares. The raised funds will be used for financing of the next stages of the construction of the two multi-purpose ships for sea transport;
- Leyarmach - through issuance of 500 000 new ordinary registered voting shares. The funds together with a purpose bank credit will be used for implementation of the Company's investment program for reconstruction and modernization of its capacities in compliance with the applicable environmental requirements.

The particular obligations of IHB as at the maturity date of the debenture loan will depend on the decision of the General Meeting. Should the General Meeting decide on conversion of the bonds into shares and the bond holders adopt such decision, the capital of the Holding will increase with the new shares. Should favourable market conditions occur, the management of IHB may decide on using the option to issue new issue of shares or bonds to realize new investment intentions of its subsidiaries.

By the end of 2007 new capital expenses may be made if this is necessary to finance commenced or new projects

of IHB or the subsidiaries, including extension of the port terminal in Bourgas, concession of passenger ports along Danube, financing of the next stages of the building of the two multi-purpose ships or conclusion of contracts for building of new ships, provision of funds for realization of the tender offer for buying up of shares of ZMM - Sliven, building of new and modernization of current production capacities of the subsidiaries, etc. The potential capital expenses are related to the development priorities of the holding company in mid-term aspect and the set investment objectives described in the Foreseen development of the company item.

The net assets of the IHB Group have increased by BGN 10 596 thousand or 13% and amount to BGN 92 655 thousand as at 31 December 2006. The increase is the result from the increase in the reserves and retained earnings. As at 31 December 2006 the net retained earnings of the Group amount to BGN 56 356 thousand, including the 2006 profit of BGN 9 647 thousand.

The total liabilities of the IHB Group have increased by BGN 8 956 thousand or 17% as compared to their total amount as at 31 December 2005 and amount to BGN 61 360 thousand as at 31 December 2006. The liabilities included IHB debenture loan of BGN 5 244 thousand, secured bank loans of BGN 9 649 thousand, trade and other payables of BGN 44 336 thousand, provisions of BGN 995 thousand and deferred tax payables of BGN 1 136 thousand. Liabilities term and structure: long-term payables of BGN 8 803 thousand and short-term payables of BGN 52 557 thousand.

4. Important events occurred after the annual closure of accounts

IHB participated in the increase in the capital of Bulyard proportionately to its shareholding through acquisition of 8 163 510 new ordinary registered shares of BGN 1 nominal value each. The Company's capital was increased twice - on 6 March 2007 and on 20 April 2007, as a result of which its capital reached BGN 37 293 thousand /BGN 24 019 thousand before the increase/.

Bulyard used the funds from the first capital increase dated 6 March 2007 to purchase the remaining 25% of the capital of Bulyard Shipbuilding Industry from the owner Navigation Maritime Bulgare, thus its shareholding in the capital of the dockyard reached 61.5% as compared to 46.13% as at 31 December 2006, while Bulyard became the sole owner of the dockyard.

The funds from the second increase in the capital of Bulyard were invested in the increase of the capital of Bulyard Shipbuilding Industry at the amount of BGN 5 000 thousand.

In April 2007 the capital of the subsidiary Privat Engineering, 100% owned by IHB, was increased through issuance of 140 000 new ordinary registered voting shares of BGN 1 nominal value and BGN 7 issue value each. The funds for the capital increase were fully paid up.

In March 2007 the General Meeting of ZMM Bulgaria Holding made a decision on distribution of a dividend for 2006 at the amount of BGN 3 000 thousand.

The corporate guarantee, issued on 15 November 2006 to secure the third payment for the building of ship with construction No 457 in favour of the buyer Georgi Maritime Ltd., was closed on 2 May 2007 as a result from fulfilled obligations.

In the period January - April 2007 the associated company Dunav Tours AD repaid BGN 5 183 thousand of its total debt to the Group at the amount of BGN 6 298 thousand.

5. Important scientific research and developments

IHB did not carry out important scientific research and developments in 2006.

6. Foreseen development of the company

- Increase of investments in the maritime business sector
- Expansion of the operations in the sea transport sector
- Development of river cruises
- Increase of investments in the machine building sector

Major trends in the activities of IHB

The major trends regarding the activities of the Holding in the next years are expected to be related to:

- acquisition, assessment and sale of interests in other companies;
- management of the companies in its own portfolio, where IHB can exercise control, directly or through related parties;
- establishment of new companies;
- investment in the portfolio companies, where IHB has long-term interests;
- financing of the companies, where the Holding owns interests.

The major strategic interests of IHB are in the following sectors and activities:

- maritime business - shipbuilding and ship repair, port operations, classification and certification, sea transport;
- river cruises;
- machine building.

Plans of material importance related to the operations of IHB

Increase of investments in the maritime business sector

IHB intends to increase the investments in this sector through supporting the investment projects of the companies operating therein: Bulyard, Bulyard Shipbuilding Industry, Dockyard Port- Bourgas, Odessoss PBM and the activities shipbuilding, ship repair and port operations. In this relation the following priorities have been planned for realization in 2007:

- Implementation of the 2007 Investment Program of Bulyard Shipbuilding Industry approved by the Management and Supervisory Boards, which envisages purchase of new equipment, construction and equipment of a blasting and painting chamber. The funds have been provided

from the increase in the capital of the shipyard and partially from a purpose bank credit;

- Implementation of the project for extension and modernization of the port terminal at Dockyard Port- Bourgas in compliance with the new directions provided for in the 2006-2012 National Program for Development of Bulgarian Ports. The preliminary project research was undertaken. In 2007 the restructuring of the activity is expected to be completed - gradual suspension of ship repair and focusing of efforts on port operations, shifting of the floating dock to Bulyard Shipbuilding Industry or its sale based on market assessment made. As initial financing of the project, the company obtained a loan of EUR 224 thousand from IHB, and leasing schemes were agreed for part of the new equipment to be purchased in 2007.

Expansion of the operations in the sea transport sector

In 2007 the building of the two multi-purpose ships owned by the subsidiaries of Privat Engineering will continue. A part of the funds for financing of the next stages of their building were provided through the increase in the capital of Privat Engineering in April. New orders may be placed. With the construction of the two vessels, sea transport will become a priority as of 2008.

Development of river cruises

IHB has proved its serious intention to develop the river cruises business along Rhein, Main, Mosel and Danube with the purchase of two new luxurious ships - the four-star Heinrich Heine and the five-star Elegant Lady. All of the five ships exploited by the associated company Dunav tours, navigate under the Bulgarian flag. The ambitions of the management of the company and its owners, IHB and Union Tours, are directed at:

- Purchase of a new ship;
- Increase of the occupancy of the bed base before, during and after the tourist season, including using some of the ships as hotels out of the season;
- Increase of the number of cruises through organization of additional excursions in the days of Christmas and New Year holidays;
- Development of the pontoon, owned by Dunav Tours along Danube in Rousse;
- Readiness for concession of the passenger ports along Danube, the ones in Rousse and Vidin in particular. In March 2007 Dunav Tours purchased the Balkan Yacht owned by the State with the intention to renovate it. The decision on financing of the above-listed priorities will depend on the needed investments and available funds of the Company as at each particular moment.

Increase of investments in the machine building sector

The subsidiary ZMM Bulgaria Holding announced its intention to purchase the shares of the remaining shareholders of ZMM - Sliven, and is to make a tender offer to the latter under Article 149a, Paragraph 1 of the Public Offering of Securities Act on 25 April 2007. The Financial Supervision Commission imposed a temporary interdiction on the offer publication and corrections in compliance with the Commission's notes are to be made. The investment amount will depend on the price per share approved by the Financial Supervision Commission. ZMM - Bulgaria Holding will finance the shares buying up with own funds and a loan from its subsidiary Bulcari. The step undertaken is a part of the consistent policy of the machine building holding regarding consolidation of its investment portfolio following the registration and finalization of such tender offer to the shareholders of its subsidiary ZMM Nova Zagora AD in 2006.

In 2007 a project for the renovation and modernization of the capacities of Leyarmach AD, a company belonging to the group of the machine building holding, will start so as to meet the higher requirements on quality and quantity of casts, as well as environment protection and provision of healthy and safe labour conditions.

The required financing at the amount of BGN 1.5 million will be ensured through the increase in the Company's capital in April and a bank credit.

Over BGN 1.5 million will be invested in Elprom ZEM for the building of a laser cutting unit. The company will use own funds and special purpose credit funds. The EU pre-accession and structural funds, through the programs for employment and Bulgarian companies' competitiveness encouragement, are also potential financing sources.

7. Changes in the price of the company's shares

- 62% rise in the price of shares
- IHB is the second most liquid company on the Bulgarian Stock Exchange for 2006

In 2006 the price of IHB shares marked an increase from BGN 3.74 to BGN 6.06 per share at the end of the year or a rise of 62%. The indices of BSE - Sofia marked an increase for the same period - SOFIX by 48% and BGN40 by 50%.

The shares of IHB enjoyed extremely high popularity among analysts and investors.

The shares became one of the most liquid position on BSE-Sofia during the whole year and ranked second after the shares of Sinergon Holding at the end of the year.

IHB was again included /rated ninth/ in the top 10 classification for 2007 most perspective share, which was published by the Capital Newspaper in its first issue for 2007. The Capital Newspaper inquired portfolio managers and investment consultants of management companies that have set out their monthly forecasts about the stock exchange market in the newspaper for second consecutive year. IHB was ranked 1st in the 2006 classification.

On 1 January 2007 the shares of IHB AD were included in the Dow Jones indices:

- The index Dow Jones STOXX EU Enlarged Total Market Index. The index belongs to the Dow Jones STOXX /www.stoxx.com/ indices family, which cover Europe, the Eurozone, the region of the countries that become EU members /EU Enlarged region/, America and Asia /the Pacific Ocean/. The index Dow Jones STOXX EU Enlarged TMI is a sub-class of Dow Jones World Index. As at 1 January 2007 it includes 130 companies established in Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria and Romania, the last two having being included on 1 January 2007.
- The indices Dow Jones Wilshire Global Total Market IndexSM, Dow Jones Wilshire Bulgaria IndexSM, Dow Jones Wilshire Specialty Finance IndexSM. The index Dow Jones Wilshire Global Total Market IndexSM includes the national indices Dow Jones Wilshire for 59 countries, including ones with developed and well-developed markets. The index for Bulgaria is Dow Jones Wilshire Bulgaria Index. It belongs to the group of regional indices that also serve as basis of a number of indices on regional principle. Dow Jones Wilshire Specialty Finance Index belongs to the group of indices by sector as it is a sub-sector index included in the General Financial Indices Sector which forms a part of the Financial Services Super sector included in the Finances Sector. The shares of IHB are included in a number of other Dow Jones Wilshire indices measuring through specific sections of the global capital market.

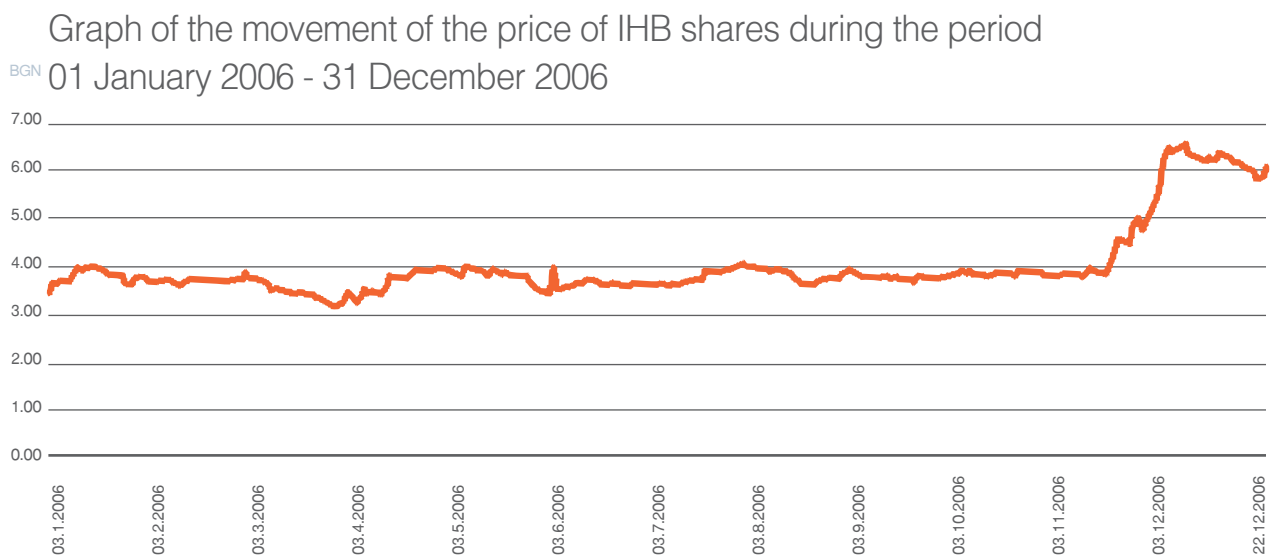
On 26 February 2007 IHB was included in the SOFIX index after being at 1st place in the list of the other index of BSE - Sofia - BG40 in February 2006. IHB is the company with the biggest free float - 57% - of the companies included in SOFIX.

In January 2007 the changes in the structures of BSE - Sofia markets and the considerably higher criteria regarding official markets came into force. The shares of IHB meet the highest criteria and remained tradable on Segment A of the official market.

The 2006 data on the trading of shares of IHB /stock exchange code IHLBL/ are as follows:

Statistics for the period 01 January 2006 - 31 December 2006 /source: BSE- Sofia/

	Value	Date
Initial price - opening price (BGN)	3.74	2006-01-03
Last average weighted price (BGN)	6.06	2006-12-22
Maximum price (BGN)	6.27	2006-11-28
Minimum price (BGN)	3.74	2006-01-03
Average weighted price in 2006 (BGN)	4.35	
Percentage change	62.03%	
Value change (BGN)	2.32	
Number of transactions in 2006	9 076 transactions	
Traded volume in 2006 (number of shares)	3 819 963	
Average monthly volume 2006 (number of shares)	318 330	
Turnover in 2006 (BGN)	16 621 691.44	
Average monthly turnover 2006 (BGN)	1 385 140.95	



Shareholding structure as at 31 December 2006

Shareholders	Number of shareholders	Number of share	% of the capital
All	60 309	21 003 235	100,00%
Legal entities	90	13 666 201	65,07%
Individuals	60 219	7 337 034	34,93%
Shareholders owing over 1 000 shares /0,0048%/	189	14 044 601	66,87%
Shareholders - legal entities owing over 1 000 shares	77	13 662 095	65,05%
Shareholders - individuals owing over 1 000 shares	114	400 996	1,91%
Shareholders - foreign persons owing over 1 000 shares, including:	26	10247032	48,79%
Legal entities, including:	14	10193646	48,53%
Individuals owing over 1 000 shares inclusive	12	53386	0,25%
Shareholders owing over 5%, including:	2	9049241	43,08%
Venside Enterprise Limited		7626799	36,31%
DZH AD		1 422 192	6,77%
Shareholders owing less than 5%	60 307	11 953 994	56,92%

8. Data on the trading of the company's bonds

In 2006 the convertible bonds of IHB were traded on the bonds market of BSE-Sofia but no transactions with them were concluded.