



**ANNUAL MANAGEMENT REPORT
OF INDUSTRIAL HOLDING BULGARIA PLC
For 2006**

Dear Shareholders,

In 2006 Industrial Holding Bulgaria Plc /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 thus starting the preparation for entering the sea transport sector.

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

New investments were made in the river cruises sector, and Dounav Tours, an associate of IHB, enlarged its fleet of river passenger ships with two new ships.

Some key data about IHB operations:

The assets of IHB, on non-consolidated basis, marked an increase of 8% as compared to 2005;

The net assets marked an increase of 5% as compared to 2005;

The income of IHB, on non-consolidated basis, marked a decrease of 63% as compared to 2005 as a result from decreased gains from investment operations – the shares of Dockyard Odessoss, in particular, representing a source of inconstant income to IHB. As compared to 2004 and 2003, however, a trend of increasing non-consolidated operating income has been observed.

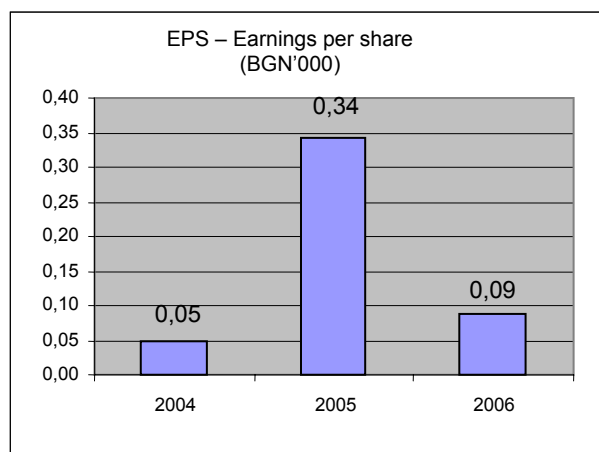
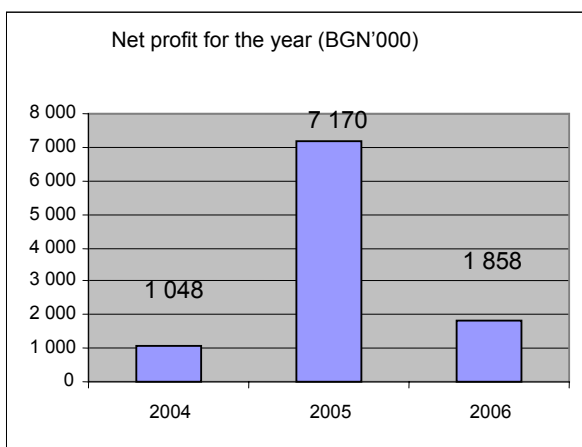
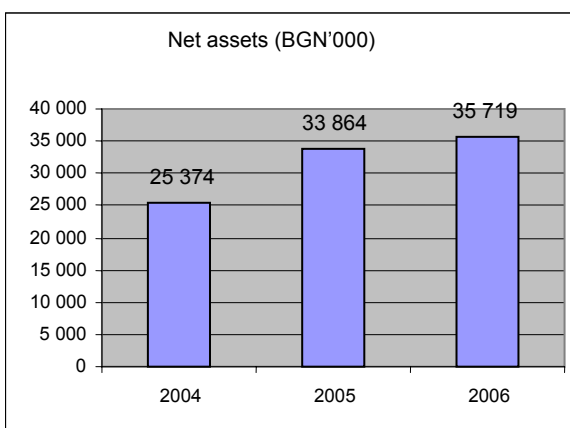
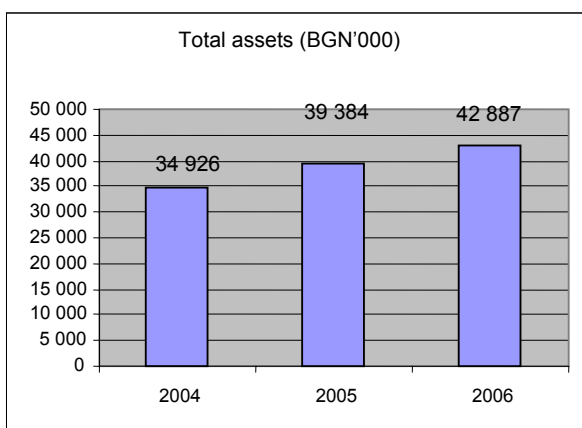
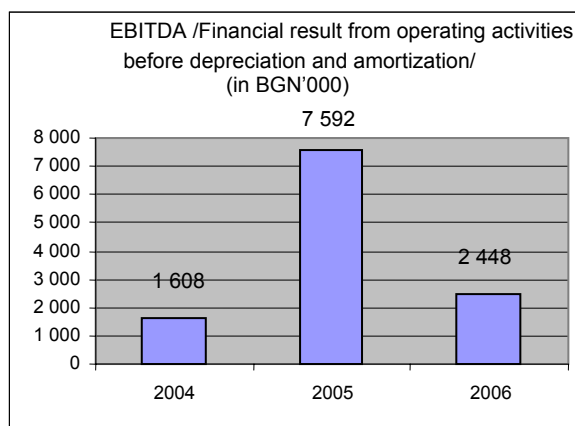
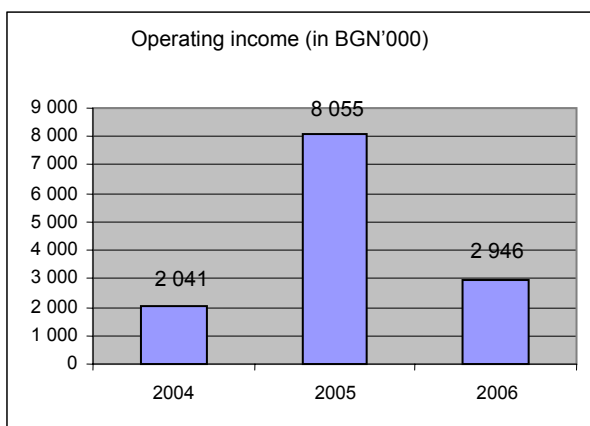
Due to the same reason the profit, on non-consolidated basis, marked a decrease of 74% as compared to 2005 and amounts to BGN 1 858 thousand. As compared to 2004 and 2003 it is also characterized with a positive trend of increase.

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 items on Bulgarian Stock Exchange-Sofia.

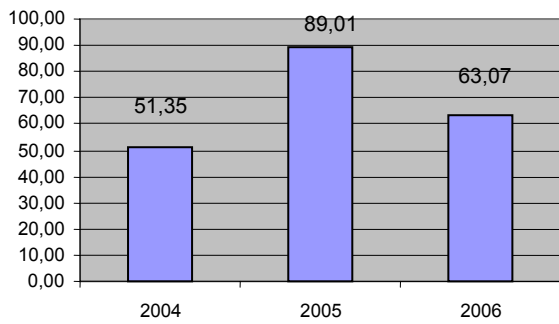


Financial indicators of ИНБ for the last 3 years /non-consolidated/

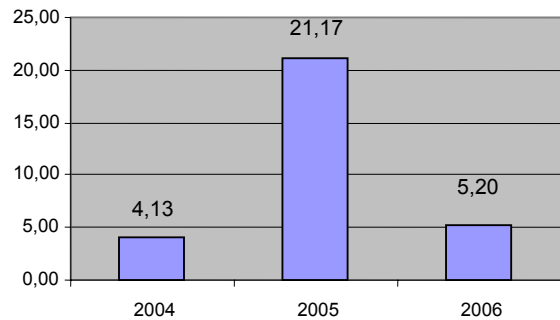




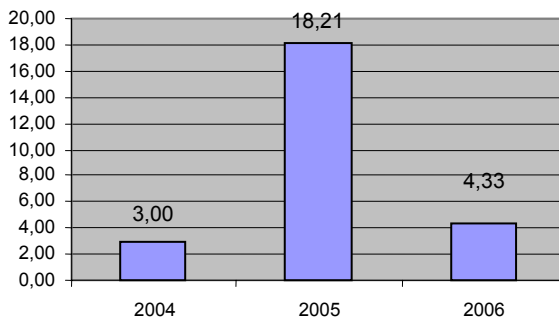
Return on sale income (in %)



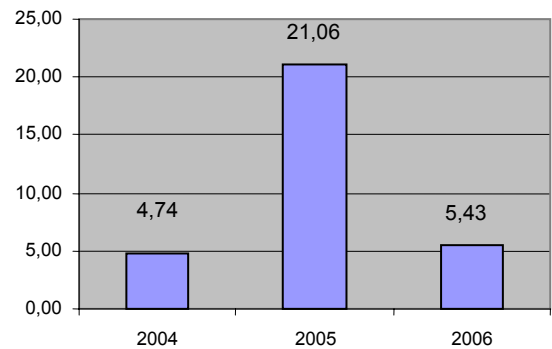
Return on equity /ROE/ (in %)



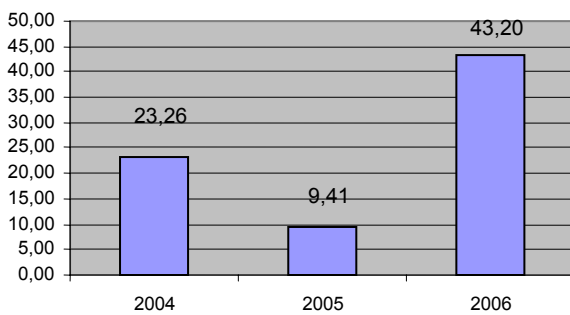
Return on assets /ROA/ (in %)



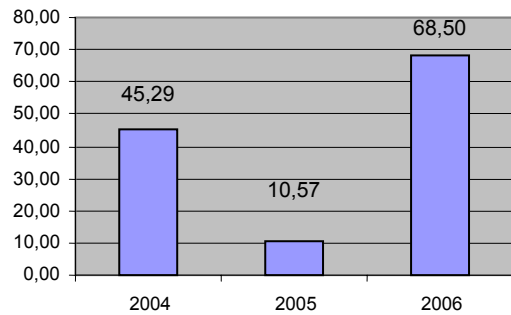
Return on invested capital /ROIC/ (in %)



P/S /price/sales per share/



Price/earnings per share /P/E/





1. 2006 operating results

IHB financial results – non-consolidated

The 2006 income of IHB amounts to BGN 2 946 thousand and marked a decrease of 63% as compared to 2005. In 2005 IHB realized 3 times more income /BGN 8 055 thousand/ as compared to 2004 /BGN 2 041 thousand/ as a result from the increased gains from investment operations – sale of shares. These gains have inconstant character and depend on the availability of assets for sale and the related decision on their sale. In 2006 the sources of income remained the same:

- Dividend income received as a result of management of subsidiaries;
- Interest income received under loans granted to companies from the portfolio;
- Income from services rendered;
- Gains from sale of shares.

The dividend income received from the companies in the portfolio is BGN 1 218 thousand and has risen by 41% as compared to the previous year when they were BGN 862 thousand. In 2006 IHB received dividends from the 2005 profit of ZMM Bulgaria Holding, Maritime Holding and Bulgartabac Holding.

The income from services rendered to subsidiaries increased 8 times in 2006 – BGN 1 036 thousand as compared to BGN 113 thousand in 2005.

The interest income under loans granted to subsidiaries and deferred payments under share sale agreements amount to BGN 220 thousand – by 24% less than that in 2005.

The gains from share sale profit amount to BGN 187 thousand and has decreased by 97% as compared to 2005 when they were BGN 6 997 thousand.

In 2006 the shares of Bulgartabac Holding were revalued as at 31 December 2006 at their stock exchange price of BGN 35.31 per share, as a result of which income of BGN 281 thousand was realized.

The 2006 profit after taxation is BGN 1 858 thousand, marking a decrease of 74% as compared to 2005 as a result from decreased income from sale of shares.

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 Dounav Tours by 60 shares or 0.01%.

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

Newly established companies

In the first quarter of 2006 the subsidiary ZMM Bulgaria Holding established a joint stock company under the name of Bulkari EAD with capital of BGN 2 million to participate in the privatization of Balkancar Sredets AD. The offer of Bulkari 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 materialized 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.

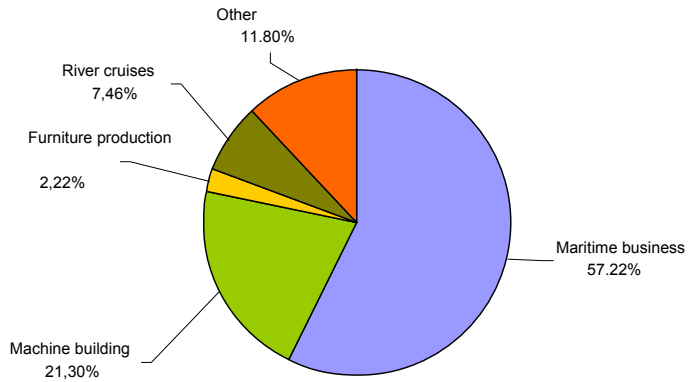
The portfolio structure changed as a result of the decreased shares of the other sectors, which are at the end of 2006 as follows: investments in the machine building sector – 21% of the total investments, river cruises – 8%, furniture production – 2% and other – 12%.

As at 31 December 2006 the portfolio of IHB, directly and through related parties, 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.

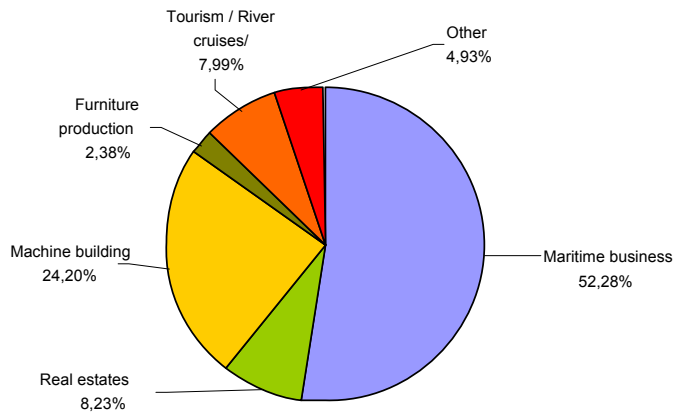


Graphs 1-3: Structure of the portfolio of IHB as at 31 December of the last 3 years

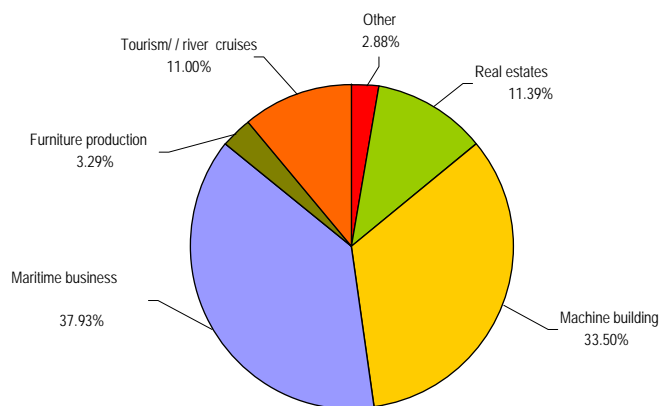
2006 Portfolio structure. Investments: BGN 37 027 thousand



2005 Portfolio structure. Investments: BGN 34 559 thousand



2004 Portfolio structure. Investments: BGN 24 964 thousand





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 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 fulfill 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 or 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 and registered pledges on machinery and equipment 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.

In June 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.

Some of the companies of IHB are still cooperating with Varna Technical University /VTU/ and Sofia Technical University /STU/, such as:

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 Ship Register 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 Shipping Register, 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.

Personnel

As at 31 December 2006 IHB has 9 employees at total, of which 67% are with higher education.

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 revenue 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. At present the obligation of IHB is conditional but the management may decide to exercise the option to finance the operations of IHB, if necessary.



The main source of cash funds of IHB in 2006 were 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 in the real estate sector were fully repaid. That created the possibility of redirecting the free cash funds towards other projects in 2006 and 2007.

Sources of liquidity for IHB in 2005

Internal sources

As at 31 December 2006 the available cash and cash equivalents of IHB amount to BGN 3 144 thousand, 94.3% of which are in the form of term bank deposits, while the others represent funds in current accounts and cash on hand. The Holding has foreign currency cash funds, representing 89% of the total cash and cash equivalents. 80% of them is in USD. The big amount of cash and cash equivalents available as at the year end is the result of the free cash funds raised through the bonds issue and of the financial results reported by IHB for 2006. They will be used for financing the investment projects in 2007 in accordance with the Holding's priorities for development in the medium run in the fields of: shipbuilding and ship repairs, port operations, sea transport, machine building and river cruises. 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 IHB amount to BGN 2 621 thousand. They comprise mainly:

- ✓ BGN 1 079 thousand of receivables from affiliates in respect of loans granted, including:
 - long-term – BGN 317 thousand
 - short-term – BGN 762 thousand
- ✓ BGN 1 227 thousand of receivables in respect to deferred payments under shares sale agreements, including:
 - long-term – BGN 763 thousand
 - short-term – BGN 464 thousand.

The other receivables represent rendered services fees, taxes refundable, prepaid services, etc. The portion of BGN 107 thousand, paid up by IHB in the capital of Transbalkan Oil Pipeline Bulgaria and reported as a short-term receivable, will be reimbursed.

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.

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 inconstant source of liquidity as the sale of shares depends on market conditions and demand. In 2007 no large transactions with investments is 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 income from deferred payments under shares 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 shares 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.

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.

A potential source for financing the activities of the holding company and implementation of its development plans is the credit limit agreed with Bank DSK.

The need of borrowed funds will be assessed in each particular case in view of the concrete investments and free cash funds available as at the time of arising of that case.

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 the Dockyard Odessoss shares, representing 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 Bulkari 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 at 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.

Information on the material engagements of IHB to incur capital expenses

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 Plc 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, financed by own funds as a result from its operations in 2006, portion of the free cash from the bonds issue and currency loans from two of its subsidiaries.

The particular obligations of IHB as at the maturity date of the debenture loan will depend on the decision of the General Meeting of Shareholders. Should the General Meeting of Shareholders decide on conversion of the bonds into shares, the capital of the Holding will increase with the new shares, and the funds will be used for financing of priority investment projects. 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 its investment intentions.

In 2007 capital expenses may be made if this is necessary to finance commenced or new projects of IHB or the subsidiaries, including increase in the capital of Bulyard AD in relation to the investment program of the shipyard, 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 ZEM – Sliven AD, 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 equity of IHB as at 31 December 2006 is BGN 35 719 thousand and has increased by BGN 1 855 thousand or 5.48%. It is due to the increase of reserves and especially to the increase of retained earnings. As at 31 December 2006 the net retained earnings amount to BGN 11 241 thousand, including 2006 profit of BGN 1 858 thousand.

The total liabilities of IHB as at 31 December 2006 amount to BGN 7 168 thousand and have increased by BGN 1 648 thousand or by 29.68% as compared to those as at 31 December 2005. The liabilities comprise a debenture loan of BGN 5,244 thousand, trade and other payables of BGN 1 915 thousand,



payables of BGN 3 thousand to related parties and tax liabilities of BGN 6 thousand. All liabilities are short-term.

4. Important events occurred after the annual closure of accounts

In January 2007 the fifth out of the total number of six interest payments under the debenture loan was made.

In March 2007 IHB participated in the increase in the capital of Bulyard AD in proportion to its interest. The capital of Bulyard AD was increased by BGN 8 600 000, and IHB subscribed 5 289 000 new shares of BGN 1 nominal value each and total amount of BGN 5 289 000. The payment was made on 5 March 2007. The capital increase was used for the purchase of 25% of the capital of Bulyard Shipbuilding Industry.

5. Important scientific research and developments

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

In 2006 Bulgarian Register of Shipping and Elprom ZEM were successful in the application for and were assigned projects under the Innovation Fund. The project of Bulgarian Register of Shipping is for development of technology for inspections and Internet-based application for technical supervision of ships. The successful deployment will contribute to the synchronization of the rules and regulations of Bulgarian Register of Shipping and the new requirements on ship building and ship repairs safety and security adopted by the International Maritime Organization and creation of electronic database and possibility for real-time inspector's work. The project of Elprom ZEM is for development and deployment of new technology for installation of an insulation system increasing the energy efficiency of electrical low and high voltage machines. The successful introduction of this technology will improve the operational features and quality of the electrical machines.

The projects have to be implemented within 1,5 – 2 years.

6. Foreseen development of the company

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.

IHB's major strategic interests are in the following sectors and activities:

- maritime business, including the following sectors and activities: shipbuilding and ship repair, port operations, classification and certification, sea transport;
- river cruises;
- machine building.



Plans of material importance related to IHB Plc operations

✓ *Increase of investments in the maritime business sector*

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

- New increase in the capital of Bulyard AD with BGN 4.7 million, which funds will be used by the shareholders to proportionately subscribe new shares in the capital of Bulyard Shipbuilding Industry AD. The raised funds will be utilized by the shipyard to partially finance the 2007 Investment Program approved by the Management and Supervisory Boards. The purchase of new equipment, construction and equipment of a blasting and painting chamber is envisaged. IHB intends to pay up its share due to the increase with own funds or loans from its subsidiaries;
- Implementation of the project for extension of the port terminal at Dockyard Port- Bourgas AD in compliance with the new directions provided for in the 2006-2012 National Program for Development of Bulgarian Ports. The preliminary project research has been already assigned. In 2007 the activity restructuring is expected to be completed – gradual suspension of ship repairs and focusing of efforts on port operations, shifting of the floating dock to Bulyard Shipbuilding Industry AD or its sale based on market assessment made. As initial financing of the project, the Holding obtained a loan of EUR 224 thousand, and leasing schemes were agreed for part of the newly equipment 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. New orders may be placed. With the construction of the two vessels sea transport will become a priority as at 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 Dounav tours AD, navigate under the Bulgarian flag. The ambitions of the management of the company and its owners, IHB and Union Tours OOD, are directed at:

- 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 own pontoon at Danube in Rousse;
- readiness for concession of the passenger ports along Danube, the ones in Rousse and Vidin in particular.

In March 2007 Dounav Tours AD purchased the Balkan Yacht owned by the State with the intention to significantly renovate it.

The decisions on financing of the above-listed priorities will depend on the needed investments and available funds of the Company.



✓ ***Increase of investments in the machine building sector***

The subsidiary ZMM Bulgaria Holding AD announced its intention to purchase the shares of the remaining shareholders of ZMM – Sliven AD, and is to make a due tender offer to the latter on 25 April 2007 under Article 149a, Paragraph 1 of the Public Offering of Securities Act. 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. The investment amount will depend on the price per share approved by the Financial Supervision Commission, which price will be offered by the tender offeror as per the financial indicators of ZMM – Sliven AD and its intentions for future development of this company. The manner of financing will be predetermined by the investment amount and available funds of ZMM Bulgaria Holding AD as at the date of tender offer registration.

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. The objectives meet the higher requirements on quality and quantity of casts, as well as environment protection and provision of healthy and safe labour conditions.

Personnel development

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 police 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, on which the attention of the management of IHB is focused.

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 Sub-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 are 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.

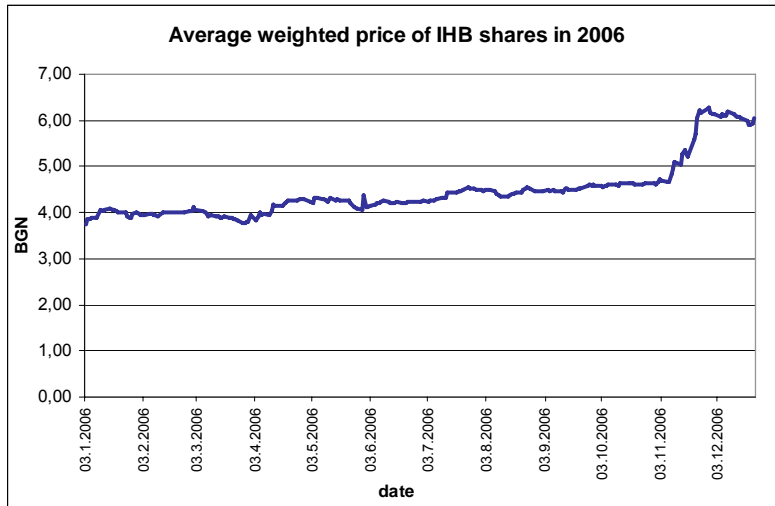
The 2006 data on the trading of shares of IHB /stock exchange code IHLBL/ are as follows:

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

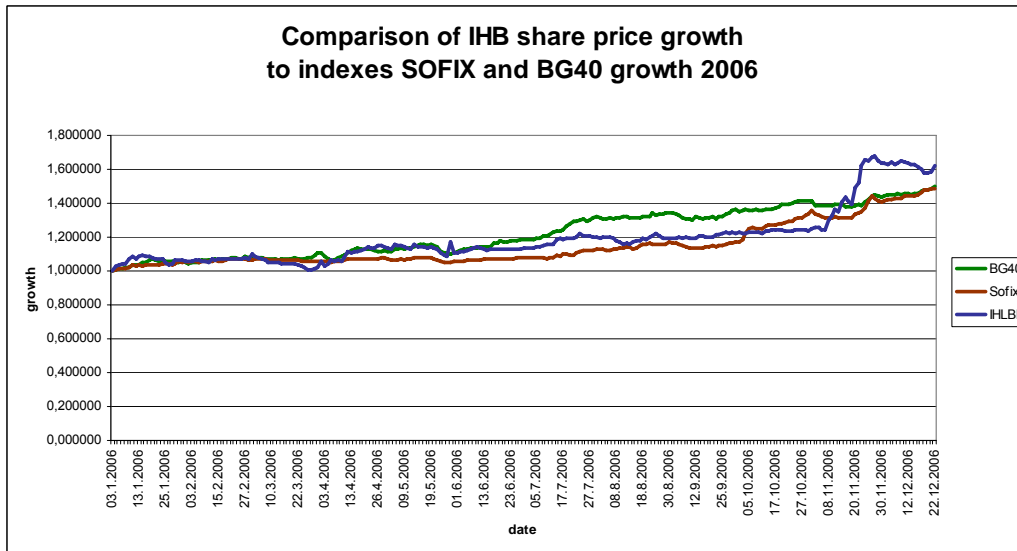
	Value	Date
Initial price – opening price (BGN)	3.74	2006-01-03
Last average weighted price (BGN)	6.06	2006-12-22
Maximum price (BGN)	6.27	2006-11-28
Minimum price (BGN)	3.74	2006-01-03
Average weighted price in 2006 (BGN)	4.35	
Percentage change	62.03%	
Value change (BGN)	2.32	
Number of transactions 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	



Graph of the movement of the price of shares of IHB during the period 01 January 2006 – 31 December 2006



Graph of the rise in the price of IHB shares as compared to the growth of the BG40 and SOFIX indices during the period 1 January 2006 – 31 December 2006



**Shareholding structure as at 31 December 2006**

<i>Shareholders</i>	<i>Number of shareholders</i>	<i>Number of shares</i>	<i>% of the capital</i>
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.

9. Corporate Governance**Evaluation of the Corporate Governance Program of IHB**

Following review of the Corporate Governance Program /the Program/ and of the activities of IHB, it may be concluded that the actions in 2006, undertaken to fulfill the tasks set, contribute to the achievement of the objectives of the Program. The actions of the management and employees of IHB are directed towards upholding the good corporate governance principles, appreciation of the trust of shareholders, investors and other stakeholders of IHB, and encouragement of the successful business operations of IHB.

Actions in connection with protection of the shareholders' rights

In June 2006 the Regular Annual General Meeting of Shareholders of IHB was held to report on 2005. It was summoned on 1 June and actually held on 15 June in accordance with the legal requirements and within the legal deadline, under the conditions of a falling quorum.



No changes in the Statutes or other internal company documents, regulating the activities of the General Meeting of Shareholders and the management bodies, were effected in 2006.

The members of the Management and Supervisory Boards and the persons occupying management positions at the Company were timely informed about the novelties in the legislation regarding the management of a public company.

Actions in connection with **disclosure of information and transparency**

In 2006, following its principles and traditions of transparency in the activities of IHB, the management and the Investor Relations Director, prepared and submitted the information about the Holding's activities on time and in a most completely and precise form. The information provided comprise regular statements, changes in the by-laws of the company, the management bodies and operational data, information about holding sessions of General Meeting of Shareholders, as well as all important information influencing the price of the company's shares. The information is provided to the Financial Supervision Committee, the Bulgarian Stock Exchange and other institutions, among which BSE-Sofia has always been informed first. Right after publishing of the information by BSE-Sofia in its bulletin, IHB published that information on its Internet site.

For the purpose of avoiding outflow of internal information, any information, which should be disclosed and may be classified as internal, has been provided in the quickest way possible to the Bulgarian Stock Exchange and the Financial Supervision Commission.

No acts for violations were issued during the year by regulatory bodies.

Actions in connection with **providing for a mechanism of good management of the company by the management bodies**

The adopted procedure for summoning and holding meetings of the management bodies was observed in 2006. The meetings were held on a regular basis, all members were informed about the agenda and were provided with all materials within time sufficient for becoming acquainted therewith before the sessions.

The minutes from the meetings were duly kept, in accordance with the requirements of law and the bylaws of the company.

In 2006 the management bodies of IHB held 18 meetings at total, including: 7 separate meetings of the Management Board, 5 separate meetings of the Supervisory Board and 5 meetings attended by the two boards together. The Management Board had sessions 13 times, and the Supervisory Board – 11 times or less than once per month.

The executive directors, with the assistance of the employees, take care that all transactions performed by IHB be in accordance with Bulgarian law and if applicable, international law as well. The decisions on the transactions are taken duly by the Management Board and approved by the Supervisory Board in accordance with their powers. No transactions were performed in 2006, which exceeded the powers of the Management Board or the Supervisory Board and necessitated a decision of the General Meeting of Shareholders, except for the issuance of corporate guarantees in favour of customers of Bulyard Shipbuilding Industry, for which the General Meeting of Shareholders duly authorized the Management and Supervisory Boards /described in Item 1 of the Report/.



For 4th consecutive year IHB uses the services of the international audit company KPMG, which audits duly the activities and their presentation in the financial statements of the company.

Finally, it may be concluded that following the analysis made, the evaluation of the Corporate Governance Program is that it is sufficiently effective, meets the international standards on good corporate governance and contributes to the achievement of the objectives set for good corporate Governance of IHB. The management believes that no re-evaluation and changes are required in the Program.

Management Board
of Industrial Holding Bulgaria Plc