

# Annual Report 2003



INDUSTRIAL HOLDING **BULGARIA**

## IHB AT A GLANCE

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

IHB pursues a permanent optimization of the investment portfolio. Investments in 2004 has been mainly in the areas of shipbuilding and repair, machine building, real estates and tourism.

IHB is one of the first public limited companies and one of the first listed companies on the official market of Bulgarian Stock Exchange - Sofia in the most recent history of Bulgarian capital market. IHB shares have been traded since August 1998.

### Where we started

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

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

### Our activities

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

### Our capital and shareholders

IHB is the fifth privatization fund in terms of size of issued capital in investment bonds and number of shareholders among 81 privatization funds licensed in Bulgaria. The initial capital was BGN 2 654 985 and the founders were 110 000 shareholders.

After several capital raisings, as at June 30, 2004 the issued capital of IHB is BGN 21 003 235, distributed in 21 003 235 ordinary voting shares with a nominal value BGN 1 each. This ranks IHB 8 in the list of all listed companies on BSE - Sofia on the size of issued capital.

As at June 30, 2004 IHB has over 94 000 natural and 20 legal persons, possessing respectively 57 % and 43 % from the voting shares. Foreign investors own 37 % from the voting shares.

### Our vision

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

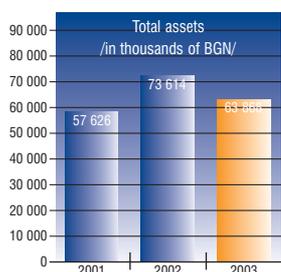


## Financial Highlights Consolidated

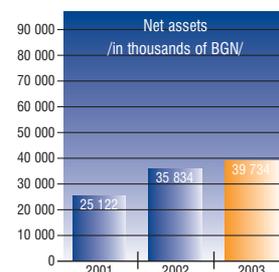
Operating revenue



Total assets

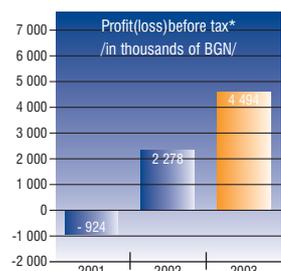


Net assets

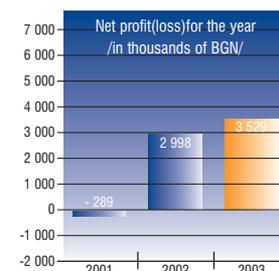


Profit / (loss) before tax \*

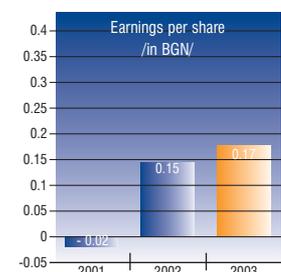
\* without minority interest



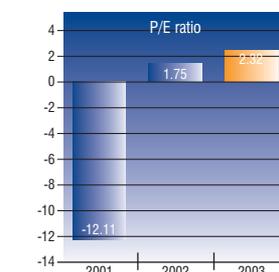
Net profit / (loss) for the year



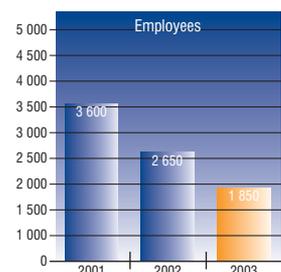
Earnings per share



Price/Earnings ratio



Employees

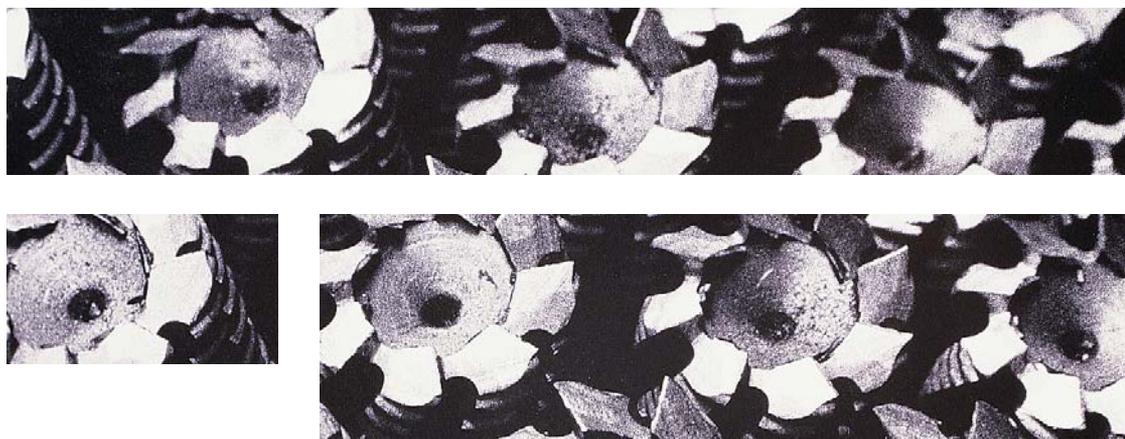


The data shown above is as at December 31 of each year and from the consolidated annual financial reports audited by KPMG for the period. The data for 2002 and 2003 is from the consolidated annual financial reports, prepared according to International Accounting Standards /IAS/. The data for 2001 is from the consolidated annual financial report, prepared according to National Accounting Standards /NAS/, but adjusted to IAS.

1 BGN = 0,51 EUR.



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*Dear shareholders,*

I was honored to be elected CEO of Industrial Holding Bulgaria /IHB/ in the summer of 2003. I was well acquainted with the operations of the company as I have been a member of the Supervisory Board since 1999. My new position brought up questions for me and my team and carried a lot of responsibilities in an extremely dynamic and complicated economic and geopolitical environment.

In spite of the difficulties faced as a consequence of the war in Iraq, the growing wave of terrorism and the constant devaluation of the US Dollar to the Euro - factors directly influencing the operations, today I can state with confidence that 2003 was a successful year for the companies of IHB Group.

Thanks to the efforts of our managers and employees throughout the country we are able to report good results for 2003: Operating revenue - BGN 46 812 thousands, Net Assets - BGN 39 734 thousands, Net profit - BGN 3 529 thousands, Earnings per Share - BGN 0.17.

#### Strategy for progress

These results should be viewed in the context of the Holding's long-term strategy. In 2003 we managed to definitely structure our portfolio and the directions for further development:

Machine building sector - To renew the product portfolio, to implement new technologies, to increase the production and to take a leading position among the producers of universal lathes.

Shipbuilding and repair - To win new market positions in the shipbuilding and repair sector as a conse-

quence of the investments in Bulyard Shipbuilding Industry (former Varna Shipyard), to develop port activities by Dockyard Port Bourgas, to widen the certification services by the Bulgarian Register of Shipping in compliance with the EU Standards.

Tourism - On March 18, 2004 the new passenger ship "Rousse Prestige" of Dunav Tours undertook its first cruise. The ship's value is EUR 10 million, it is a 4 stars ship sailing on the rivers Rhine, Danube and Main and is the first Bulgarian passenger ship built in the last 20 years. We intend to fully renew the fleet of the company, which will allow us to take a well deserved place among the ship owners operating on the Danube river.

Real estate - In 2004 the construction of a holiday village "Kolokita" near Sozopol will start. The value of this project is about EUR 10 million.

In 2004 IHB invested in land, bordering the seacoast, in the Shkorpilovtzi area. The land is approximately 100 decares and is included in the village plan regulation.

#### Confidence for success

Through the years, IHB has always strived to improve its positions. We intend to keep our leading positions among the public limited companies in Bulgaria as we ensure a slow but stable increase of the net assets - increase in our shareholders value. In 2003 the net assets raised with 11 % compared to 2002.

Following a transparent and stable policy with clearly formulated objectives and program and audit by an international auditor, the whole team of IHB is ready to face the challenges of the market, the difficulties of creating and developing an adequate competitive environment. And we are convinced we have taken the right direction.

We are positive that we possess the necessary resources to fulfill our strategy - qualified and motivated managers and employees, financial resources and correct business partners. But for all this we have to fight strongly - day after day and project after project.

IHB will focus on the stabilization and development of the investments already made, i.e. new investment projects are not a priority. In 2004 all subsidiaries should end the year on profit, as the target is the profit on consolidated base to be 10% of the net assets value, which amounts to about BGN 4 million for the group of companies.

*Dear shareholders,*

We have a lot of work to do. We count on your trust and support and we, the whole team of IHB, will do our best to meet your expectations.

*Daneta Zheljeva*

CEO

August 2004

## MANAGEMENT



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

### Supervisory Board (SB)

#### DZH AD - Chairman

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

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

1. Rossen Dimolarov (44) joined the management team of IHB in February 1997, when he was elected member of the Managing Board and Executive Director. In September 1999 he became CEO of IHB and remained on this position until July 2003 when he moved to the Supervisory Board as a representative of DHZ AD. He has rich experience in business administration of commercial companies. He graduated law in Sofia University Kliment Ohridski. MLL in Law.

#### 2. Mrs. Snejana Hristova

Snejana Hristova (54) joined the management team in 2003 when she was elected member of the Managing Board.

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

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

#### 3. Mr. Konstantin Zografov

Konstantin Zografov (47) joined the SB in September 1999. He has rich experience in business administration in the Ministry of Defense and General Staff of Bulgarian Army, Organization for Security and Cooperation in Europe, commercial companies and international non-profit organizations. He graduated National Military University Vassil Levski in Veliko Tarnovo, with civil major eastern languages, Staff College G.S. Rakovski in Sofia and Defense and Security policy strategic course in the GCSP, Geneva, Switzerland. Mr. Zografov is Regional Vice President of AFCEA International for Mediterranean and Black sea region.



#### Managing Board (MB)

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

Bojidar Danev (65) has been member of the Managing Board and its Chairman since IHB's establishment. Mr. Danev has a great experience in business administration of commercial companies and non-government organizations.

He graduated the Technical University, Sofia and has a PhD specialization in Germany. MSc in Engineering, PhD in Economics and Senior Research Assistant - second degree.

Mr. Danev is Chairman of the Managing Board and Executive Chairman of the Bulgarian Industrial Association.

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

Daneta Zheleva (36) joined the management team of IHB in September 1999 as a representative of Dia Expert EOOD - member of the SB. She has a 10 year experience as a lawyer in the Sofia Bar Association. She graduated law in Sofia University Kliment Ohridski. MLL in Law.

Mrs. Zheleva is a member of the Managing Board of the Bulgarian Industrial Capital Association.

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

Anguel Katarov (62) joined the management team in July 2002. In July 2003 he was elected CEO of IHB. He has great experience in business administration in the Ministry of Defense and General Staff of Bulgarian Army, as well as in commercial companies.

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

##### 4.Mr. Borislav Gavrilov

Borislav Gavrilov (28) joined the management team of IHB in July 2003. He has been working in IHB, Elprom ZEM and Alcomet before that. He has experience in business administration of commercial companies. He graduated economics in Hull University, Great Britain. Economist.

##### 5.Ambassador Boyko Noev

Boyko Noev (50) joined the management team in March 2003. He has rich experience in administration in government institutions - he has been member and deputy-head of the Bulgarian delegations to the CSCE and CFE Vienna negotiations and head of the European Organizations Department, Ambassador to NATO, Belgium and Luxembourg, Minister of Defense in Bulgaria. He graduated International Relations in Moscow Institute for International Relations. Ambassador Boyko Noev is Director of the European Program at the Center for the Study of Democracy



## IHB CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE PROGRAM Industrial Holding Bulgaria PLC

#### I. Objectives of the Program

- To establish the principles of good corporate governance in IHB
- To increase the level of trust of shareholders, investors and stakeholders in general, towards IHB
- To encourage the successful economic activities in IHB

#### II. Corporate Governance Principles

Corporate Governance at IHB will be based on the following principles:

- Defense of shareholders' rights
- Disclosure and transparency
- Good management of the company by the management bodies

#### III. Steps

Defending the rights of shareholders

Updating the Statute and the internal documents of the Holding in accordance with the legal requirements and with the best corporate governance practices in the area of shareholders' rights, i.e.:

- Safe methods for registration of ownership;
- Safe methods for change of ownership;
- Timely and regular receiving of information concerning the company;
- Participation and vote in the AGM;
- Involvement in the election of management;
- Involvement in distribution of the Holding's profit.

Disclosure and transparency

Development of procedures for immediate, correct and full disclosure of information for shareholders and for the general public.  
Creation and support of effective program for disclosure.



Development of procedures for review of annual, quarterly and current reports and other company information, corresponding to the respective legislation in order to guarantee that they are full, accurate and timely.

Providing a mechanism for good corporate governance by IHB management

Development of guidelines guaranteeing that meetings of management bodies are regularly held, all members receive the agenda and all materials in a timeframe that allows them to get acquainted with the materials before the meetings.

Review and, if necessary, development of procedures for detailed protocols of the meetings of management bodies including information on votes of each management board member and justifications for these votes for each agenda item.

#### IV. Evaluation of the Corporate Governance Program

Analysis and evaluation of the effectiveness and implementation of IHB Corporate Governance Program on an annual basis.

Following the tendencies in the theory and practice in the area of corporate governance in order to guarantee that IHB is updated with regards to the issues in this area.

## IHB Team



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

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

## Annual Consolidated Management Report

### Industrial Holding Bulgaria operations - current situation and future perspectives

#### Results from operations for 2003

##### Portfolio restructuring

##### Investments in existing companies and establishment of new companies

The main activities of IHB in 2003 were as follows:

- Portfolio restructuring;
- New investment projects in areas as infrastructure, real estate, shipbuilding and ship repair;
- Strategic management of subsidiaries, implementing a new policy aiming to increase subsidiary competitiveness by:
  - assisting subsidiaries with regards to asset acquisition (technological and financial);
  - improving products;
  - supporting their marketing and sales functions;
  - organizational management, etc.

In the beginning of 2003 IHB founded the company TransBalkan Oil Pipeline Bulgaria AD together with Lukoil Bulgaria, Transstroil Oil Pipeline EOOD, MG Energetika i prirodni resursi AD, Magnum 07 OOD, KZU AD, Monolit 3 OOD and the Bulgarian state owning one privileged share. The operation of the new company is related to the construction of the Burgas - Alexandrupolis oil pipeline. The capital of the company is BGN 3 004 thousand and IHB subscribed 429 shares with nominal value of BGN 1000 each, representing 14.281% of the capital. The same amount of shares was subscribed by all other shareholders. At present, 25% of the capital has been paid-in.

IHB, as part of the Bulyard consortium, participated and won a tender announced by the Navigation Maritime Bulgare. As a result, the consortium was awarded a contract to become a strategic partner in a newly established company that would manage the activities and assets of Varna Shipyard. The other partners in the consortium are the Odesos Dockyard PLC, Electromachinery Holding AD and Bulcom Ltd.

#### Increased ownership in companies from the portfolio

IHB increased its ownership in Dunav tours PLC, Rousse to 45.01%, by acquiring new shares. The same increase was carried out by the other shareholder - Union Tours. An agreement was signed outlining a mutual management policy for Dunav Tours, leading to the possibility for the two major shareholders to extend a tender offering to the remaining shareholders (the two owners together owned 90.02% of the company). Later, IHB and Union Tours terminated their agreement and withdrew their tender offering.

IHB purchased the remaining 50% of KLVK AD and as at December 31, 2003 the Holding owns the whole company.

In 2003, the Holding increased its share in Elprom ZEM by subscribing shares in a procedure for increase of the company's capital. The company issued rights of issue for its existing shareholders. IHB purchased additional rights from other shareholders and now has a total of 674 445 shares (after the increase of capital). As a result, the control of IHB in Elprom ZEM directly and through affiliates reached 82.19%.

#### Sale of shares from the portfolio

IHB sold 72% of its ownership in Chimremontstroi AD and withheld 25.86% of the capital. The shares were sold for EUR 800 thousand, to be paid in installments before November 30, 2007 with an interest on the unpaid amount of 12 EURIBOR.

The Holding sold 16 500 shares, representing 33% of the capital, of Hydro Power Bulgaria to other investors. The shares were sold at their nominal value - BGN 1 per share. As at the end of 2003 IHB controls 67% of the company.

As a result of the 2003 restructuring, as at December 31, 2003 the portfolio of IHB, directly and through affiliates, consists of 16 companies. Direct investments of IHB in equity, as at the end of the year, amount to BGN 19 178 thousand.

#### Portfolio structure by industries

/for the last 3 years as at December 31/

#### 2003

investments total: **BGN 19 178 thousand**

Industry	%
Machine building	46,22
Shipbuilding and repair	15,49
Real estates	14,60
Tourism /river transport/	14,17
Furniture production	4,29
Other transport activities	0,70
Production of ceramic isolators	0,63
Hoteliery	0,54
Energetics	0,17
Other	3,17
<b>Total</b>	<b>100</b>

#### 2002

investments total: **BGN 20 360 thousand**

Industry	%
Machine building	51,61
Shipbuilding and repair	14,52
Tourism /river transport/	13,28
Furniture production	4,04
Other transport activities	0,66
Production of ceramic isolators	0,60
Hoteliery	0,51
Energetic	0,25
Other	14,54
<b>Total</b>	<b>100</b>

#### 2001

investments total: **BGN 17 823 thousand**

Industry	%
Machine building	25,73
Aluminum production	21,62
Shipbuilding and repair	17,31
Tourism /river transport/	15,17
Furniture production	1,14
Production of plastics	0,83
Production of ceramic isolators	0,68
Hoteliery	0,66
Energetics	0,28
Other	16,59
<b>Total</b>	<b>100</b>

## New investment projects

In 2003 IHB initiated a few investment projects:

### The Kolokita Project

Private Engineering AD bought approximately 96 decares of land in the Budgaka area, nearby Sozopol. EUR 2 430 thousand were invested. The land will be used to build a resort village - apartments and family houses, which will be sold to investors. The village will be equipped with several swimming pools, tennis courts, sport yards and equipment, restaurants, coffee shops and commercial areas.

Private Engineering will manage the resort village and the common areas.

The resort village is currently being designed and potential investors are being contacted.

### The Bulyard Project

IHB, together with Dockyard Odesos, Eletromachinery Holding and Bulcom established the Bulyard consortium. The consortium participated and won a tender announced by the Navigation Maritime Bulgare to become a strategic managing partner to manage the activities and assets of Varna Shipyard.

### The Renewable Energy Source Project

The Holding initiated a business research in the area of wind power, negotiating contacts with leading producers of wind power equipment. The work is focused on researching the possibilities related to using these renewable energy sources in Bulgaria. The changes in the construction policies related to the construction of Hydro Powerstations are being followed and the Holding is on the look for investment opportunities.



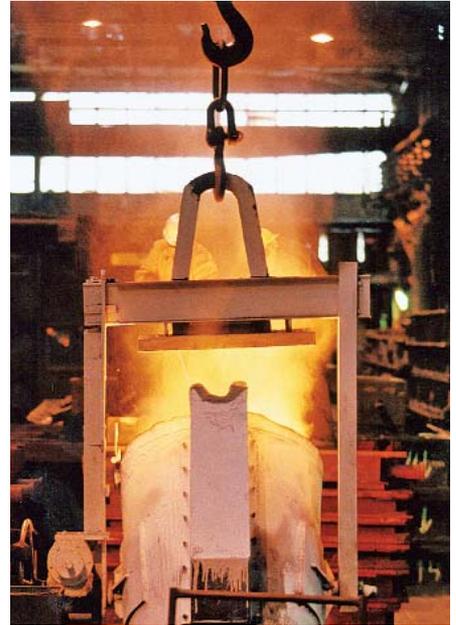
## Employees

As at December 31, 2003 the number of employees in IHB and its subsidiaries was 1 850 people. 10 of them work in IHB.

### Events, improving the corporate culture of IHB

In 2003 the tradition of organizing Annual Sport Events for the Holding and its companies was continued. For the first time a Winter Sport Event was held - Sport Winter 2003 in Borovetz. In the autumn the beautiful city of Hisar hosted the Sport Autumn 2003 for summer sports. Representatives of all companies from the Holding group took part in the events and it was confirmed that sport events are a successful tool for strengthening the corporate culture and maintaining a competitive spirit among the companies in IHB.

The tradition for selecting and rewarding a "Director of the Year" within the IHB Group and an "Employee of the Year" continued in 2003.



## IHB and its subsidiaries

In accordance with the tasks set forth in the beginning of the year, IHB stimulated and provided assistance to its subsidiaries in the following areas:

- Subsidiaries' investment activities;
- Improvement of products and services and introducing new products and services according to market requirements;
- Improving marketing, HR and other management activities;
- Ensuring financial resources for the operations and the investment activities of subsidiaries.

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

In the beginning of the year the management of IHB developed a set of strategic objectives and outlined the results, which each company should achieve in 2003. Each director received a personal business task for the year, in accordance with the priorities of the company. The results were reported quarterly on meetings of Holding management and the respective subsidiary management. IHB strictly controlled the performance using the figures set forth in the year program as a benchmark.

### Administrative assistance

In 2003 IHB continued to assist its subsidiaries in their relationship with institutions on the occasion of the subsidiaries public character. The Holding developed methodological guidelines for disclosure to BSE and the FSC and provided them to all subsidiaries - guidelines for disclosure and preparation of periodic reports according to the amendments in the Law on Public Offering of Securities (LPOS), guidelines for conducting the AGM according to the requirements of the LPOS. Assistance was also provided to companies in their relationship with the Central Depository for registration, increase of capital and for receiving different excerpts.

## Results from operations of companies in IHB group

### Machine building

ZMM Bulgaria Holding AD and its subsidiaries ZMM Sliven PLC, Mashstroy PLC, ZMM Nova Zagora PLC and Leirmach AD

In 2003 the machine building companies in the group of ZMM Bulgaria Holding reported growth in production compared to 2002. The growth is respectively as follows: ZMM Sliven - 5.84%, Mashstroy - 8.2% standard lathes sales growth.

For August, 2003 the production load per month was on average 80 machines, compared to 50-60 machines at the beginning of the year.

The USD devaluation against the EUR in 2003 had a negative effect on the income of the company. The devaluation of the USD in 2003 resulted in small increase of the consolidated income from operations of the machine building holding when in fact the registered increase in sales was larger. For example, the changes in the USD currency rate in 2003 led to a decrease in the net income from sales of ZMM Nova Zagora of 18.10%, compared to 2002, despite of the increased production - USD 150 thousand more than the previous year. For 2003 the losses for ZMM Sliven from income from sales of production, due to the US dollar devaluation, amount to BGN 584 thousand. The USD devaluation against the EUR in 2003 had a negative effect on the income from operations of Mashstroy since sales in USD represent 70% of its income. In the same time the materials used for manufacturing lathes are mainly imported and paid for in EUR.

The international markets for products of ZMM Bulgaria Holding do not allow an on-going change of prices. However, the management of the machine building holding renegotiated and contracted higher prices on some markets traditionally dealing in US currency. Another preventive measure against the currency rates fluctuations is negotiating sales prices in EUR in all European countries (except Turkey).

In 2003 new investments were made in machines and equipment. Markets: During the last year the following changes in the market positioning of the company took place: reduced market size in Italy, considerable increase of the market penetration in Turkey, new markets - Colombia, Indonesia.

The income from sales and the financial result for each company from the group of ZMM Bulgaria Holding are as follows:

### ZMM Bulgaria Holding

Income: In 2003 the income of the company amounts to BGN 22 203 thousand compared to BGN 23 266 thousand in the previous year.

Financial result: The company closed the year balance of 2003 with a profit of BGN 730 thousand compared to BGN 332 thousand in 2002.

### ZMM Sliven

Income: In 2003 the net income from sales of the company amounts to BGN 11 931 thousand compared to BGN 12 516 thousand in 2002.

Financial result: The company closed the year balance of 2003 with a profit of BGN 63 thousand compared to a loss of BGN 16 thousand in 2002.

### Mashstroy

Income: In 2003 the income of the company amounts to BGN 10 432 thousand compared to BGN 9 586 thousand in the previous year.

Financial result: The company closed down the year balance for 2003 with a loss of BGN 108 thousand compared to a profit of BGN 68 thousand in 2002.

### ZMM Nova Zagora

Income: In 2003 the income of the company amounts to BGN 2 312 thousand compared to BGN 2 872 thousand in the previous year.

Financial result: The company closed the balance for 2003 with a loss of BGN 325 thousand compared to a profit of BGN 4 thousand in 2002.

### Leirmach

Income: In 2003 the income of the company amounts to BGN 2 749 thousand compared to BGN 2 005 thousand in the previous year.

Financial result: The company closed the balance for 2003 with a profit of BGN 61 thousand compared to a loss of BGN 628 thousand in 2002.

#### Himremontstroi AD

In 2003 the company continued to focus its main operations in the areas of project engineering, construction and repair in the chemical, metallurgy and energy sector as well as infrastructure.

Himremontstroi works mostly on the Bulgarian market, but its customers are partially foreign investors - Umikor med, Sofia med, Stomana industry, FEI - Japan. The company operates in almost all regions of Bulgaria - Sofia Bourgas, Devnia, Stara Zagora, Dimitrovgrad, Vraca, Svishtov, Plovdiv, Pleven and Vidin.

Income: Net income from sales of Himremontstroi for 2003 is BGN 14 697 thousand.

Financial result: The consolidated financial result of Himremontstroi for 2003 is a loss of BGN 344 thousand.

#### Production of Electrical Machines

##### Elprom ZEM PLC

In 2003 Elprom ZEM PLC adopted a series of measures in order to strengthen the company's positions and address its weaknesses.

The more important of these are:

- Active measures to use the advantages of the company with regards to repair of stator windings and hydro generators.

For this period the repair related to the rewinding of the stator package of the following has been concluded: Hydro Power Plant /HPP/ "Sestrimo" and HPP "Barzia" and a new winding for the hydro generators №2 and №3 was made for WEP "Aleko", WEP "Momina klisura" and Pump Storage Hydro Power Plant /PSHPP/ "Chiara".

- Negotiations with foreign companies (General Electric - USA, VA TECH - Austria, Mecamidi - France) to make Elprom ZEM their main sub-contractor.

In 2003 negotiations with VA TECH - Austria were initiated for concluding a contract for sub-contractor for the construction of the HPP "Cankov kamak".

- Active marketing in order to strengthen the market positions of the company.

- Purchase of a new software product "Resource manager" for the purpose of better cost management. At present, a data base is being created to enable the product's integration in the working process.

- Re-certification under ISO 9001:2000.

- Performance of analysis of warehouses organization and a program for their restructuring was developed to achieve increased

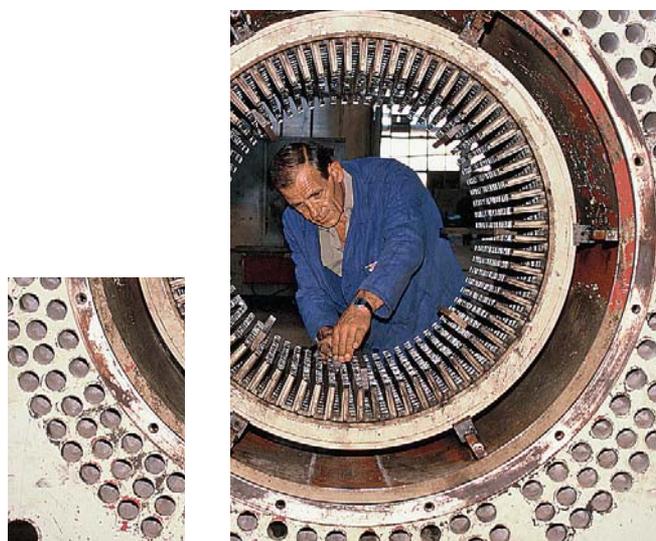
efficiency.

- Change of equipment to provide for the production and technological needs from steam and compressed air.

- A series of measures were taken with regards to HR management.

Income: The net income from sales of Elprom ZEM for 2003 amounts to BGN 4 341 thousand and showed a growth of 16 % compared to 2002.

Financial result: Elprom ZEM closed the balance for 2003 with a profit of BGN 155 thousand compare to a loss of BGN 2 174 thousand for 2002.



## Ship repair

### Dockyard Bourgas AD

The economic situation in the sector in 2003 was favorable for the company. The strategic activities were focused on increasing the market share of Dockyard Bourgas, while maintaining competitive prices of the ship repair services. In 2003, investments were made to repair the main piece of equipment of the plant - the sailing dock and to refurbish the administrative building.

**Markets:** In 2003 the company worked towards increasing the market share in the existing foreign markets and exploring new.

**Income:** In 2003 the company showed a considerable growth of income from sales compared to 2002 - 90 %. Income from operations of Dockyard Bourgas for 2003 amounts to BGN 3 623 thousand compared to BGN 1 912 thousand in 2002. The growth is mainly due to the increased number of ship repairs for traditional customers of the company as Navigation Maritime Bulgare, as well as due to attracting new customers - ship owners and intermediaries from the Netherlands, Denmark, Greece and Bulgaria.

**Financial result:** Dockyard Bourgas closed the year balance of 2003 with a profit of BGN 105 thousand compared to a loss of BGN 99 thousand in 2002.

## Transportation Activities and Services

### Sano Maritime Holding AD and its 100% subsidiary Bulgarian Register of Shipping AD (BRS).

The activities of Sano Maritime Holding include the management of its subsidiary BRS, the activity of which is related to classification and supervision of ships under construction, operational ships and ships that are being repaired.

In 2003 BRS signed a contract for joint operations with Bureau Veritas. The company signed new contracts with the Maritime Administration of Mongolia, Komoros and Slovakia receiving authorization to review ships and issue statutory documents on behalf of the governments of these three countries. The English Lloyd confirmed the certificate for internal quality control of BRS.

**Income:** The net income from sales of BRS for 2003 amounts to BGN 1 464 thousand and show growth of 18 % compared to 2002.

**Financial result:** BRS closed the 2003 balance with a profit after tax of BGN 375 thousand compared to profit of BGN 254 thousand in 2002.

## River Transport (Tourism)

### Dunav Tours PLC

The main operations of the company are related to the maintenance and exploitation of the passenger ships "Rousse" and "Sofia". It also administrates tour operator and agent activities. Through its subsidiary Tourist Company Dunav AD, Dunav Tours invested in the construction of a new ship "Rousse Prestige", which was ready for exploitation on March 18, 2004.

The reported income from operations of the company for 2003 was affected by the low level of the Danube river. This led to a couple of canceled trips and reduction of the number of tourists serviced. As a result, the charter price for the exploitation of both ships declined with about BGN 670 thousand compared to the previous year.

**Markets:** The main market for the services of the company is the European market. Its ships flyed the route: Budapest, Vienna - Passau and back.

**Income:** Net income from sales of Dunav Tours for 2003 on a consolidated basis amounts to BGN 4 464 thousand with a 3 % decrease compared to 2002.

**Financial result:** The consolidated financial result after tax of Dunav Tours for 2003 is a profit of BGN 33 thousand compared to BGN 683 thousand for 2002.



## Production of furniture

### Avgusta Mebel AD

The efforts of the company are directed towards establishing a direct contact with traders from the EU, USA, Israel and other smaller markets.

In 2003 Avgusta Mebel worked mostly with new customers, especially for export of production - La Redutte - France, Mamas&Papas - GB, and lately with Nimi- Israel, Sasi fashion - intermediary for OTTO, Twentyi - Denmark etc.

The company introduced new modern furniture for mass production - poplar wardrobes and cupboards for the French company La Redutte and veneer shelves for the Israeli company Nimi International. The expectations are to receive regular and larger orders and as a result have a more uniform load of the technological lines of production of furniture from wood and veneer PDC. Orders for other types of furniture produced from veneer are expected from the hotels Gillos - Greece and Interservice Uzunivi OOD - Varna. These expectations are due to previous request and delivery of samples of hotel furniture.

The company invested in a four-side processing machine for precise processing of small details and a grinding machine used for fine processing of wooden surfaces.

The tendency in the modern furniture production - in the design and fashion of modern furniture - changes very fast and as a result, the life cycle of the main products of the company is relatively short. Avgusta Mebel continues to develop and introduce new products. In the past year, about 68 % of the products sold were based on new models and 32 % - were based on older models.

Markets: Traditionally, the company exports its production. The share of production sold on foreign markets was 87 % in 2003. Avgusta Mebel AD signed a contract for supply of furniture for La Redute - the second largest furniture shop chain in Europe.

Income: The net income from sales of Avgusta Mebel for 2003 amounts to BGN 2 586 thousand and show a growth of 6 % compared to 2002.

Financial result: Avgusta Mebel closed the 2003 balance with a loss of BGN 34 thousand compared to a loss of BGN 225 thousand for 2002.

## Real Estate

### Private Engineering AD

In 2003 Private Engineering AD invested in land in the Budgaka area near Sozopol described in detail in the New Investment Projects section of this report.

Income: The growth of income of the company, compared to 2002, is 45 %. The main sources of income for the company were insurance and consultancy activities.

Financial result: Private Engineering closed the 2003 balance with a profit of BGN 887 thousand compared to BGN 291 thousand for 2002.

## Energy Sector

### Hydro Power Bulgaria AD

The focus of the company in 2003 was researching the opportunities for construction of mini Small Hydro Power Plants on the territory of the Republic of Bulgaria. During the year, none of the projects was initiated due to the lack of economic feasibility.

Income: In 2003 the company provided consultancy services and has an income from operations of BGN 16 thousand.

Financial result: Hydro Power Bulgaria closed the 2003 balance with a loss of BGN 10 thousand compared to a loss of BGN 11 thousand in 2002.

## Others

### KLVK AD

In 2003 KLVK AD provided services in the area of organizing, consulting and assisting companies to participate in international fairs. Income: The net income from sales of KLVK for 2003 amounts to BGN 42 thousand. The company was not active in 2002.

Financial result: KLVK closed the 2003 balance with a profit of BGN 3 thousand compared to a loss of BGN 9 thousand in 2002.

### International Industrial Holding Bulgaria AG

In 2003 the main sources of income for the company were dividends from investments in shares.

Income: The net income from operations of International Industrial Holding Bulgaria for 2003 amounts to BGN 427 thousand with a growth of 86 % compared to 2002.

Financial result: International Industrial Holding Bulgaria closed the 2003 balance with a profit of BGN 403 thousand compared to BGN 182 thousand in 2002.

## Liquidity of IHB

The following represent the main sources of cash for IHB in 2003:

- Income from investments;
- Income from dividends;
- Income from interest from interest bearing receivables from subsidiaries and other companies with postponed payments due from contracts for sales of shares and income from interest on deposits;
- Income from services.

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

In 2003 IHB did not use any external finance such as bank loans.

The IHB subsidiaries have used for their activities both own resources and attracted funds.

In 2003 the subsidiaries of IHB have financed their activities with bank loans from CB Allianz Bulgaria, DSK Bank EAD, Reiffeisenbank - Bulgaria, UBB and Biochim Bank.

Teams from IHB assisted in the preparation of business plans of subsidiaries to be reviewed by banks in a credit application procedure.

In 2003 IHB has given loans to subsidiaries of BGN 4 727 thousand, of which BGN 2 161 thousand have been repaid as at December 31, 2003 and BGN 2 646 thousand were due from previous loans and were paid back.

IHB has provided guarantees for subsidiaries in front of commercial banks in the form of endorsements of promissory notes with a total value of BGN 471 thousand as follows:

- A loan of BGN 100 thousand credited to Avgusta Mebel AD - payment due August 25, 2004;
- Endorsements of the performance bonds issued by Elprom ZEM to clients for a total value of BGN 371 thousand and with different maturity dates in the period July 9, 2004 - June 30, 2008, depending on the terms of the execution contracts of Elprom ZEM with its clients.

In 2003 Elprom ZEM increased its capital with BGN 751 thousand in an attempt to resolve the liquidity problem of the company.



## Capital Resources

### Information on significant undertakings of IHB related with capital expenditures

As at December 31, 2003 IHB participated in Bulyard AD - a consortium created as a strategic partner to Navigation Maritime Bulgare for the management of the activities and assets of Varna Dockyard. Bulyard took part in the establishment of a company for managing the assets of Varna Shipyard and it follows that it should purchase 75% of the capital of this company for USD 16 660 thousand. IHB purchased 25% of the amount with which Bulyard AD increased its capital, i.e. BGN 5 992 245. The funds raised through the increase of capital (in 2004) were used for the purchase of shares from Navigation Maritime Bulgare.

As at the date of preparation of this report IHB has already purchased shares from the increase of Bulyard's capital. The Holding financed this investment with own and attracted funds - a bank loan from DSK Bank EAD of USD 2 million.

In addition to the investment described above, IHB plans investments in the areas of Renewable Energy Sources and Tourism described in detail in the section Future development of the company.

The investment projects will be financed with funds from subsidiaries and funds raised through the issuance of bonds of IHB (described in section Important events that occurred after the date of issuance of the annual report).

IHB will finance these investments in the form of loans provided for these subsidiaries and/or subscription of shares from their capital increase.

## Important events that occurred after the annual accounting balance

The following events took place after the date of issuing of the 2003 financial report:

- IHB sold 761 090 shares from Elprom ZEM (62.76 % of the capital of the company) to ZMM Bulgaria Holding as a result of portfolio restructuring within the group of companies of IHB. This transaction maintains the control over Elprom ZEM within the group. The positive result of the transaction is BGN 42 thousand.
- IHB participated in the increase of capital of Bulyard from BGN 50 thousand to BGN 24 019 thousand by subscribing 5 992 245 shares of the capital increase, for the total value of BGN 5 992 245. With these funds Bulyard AD took part in the establishment of Bulyard Shipbuilding Industry AD, Varna.

The funds used by IHB for the purchase of shares from Bulyard AD are internal as well as external - the attracted funds are in the form of a bank loan from DSK Bank EAD and amount to USD 2 million. The loan has been granted in February 2004 for 3 years. The collateral provided for the loan is a mortgage of the enterprise Dockyard Bourgas AD and a promissory note for USD 475 thousand, endorsed by ZMM Bulgaria Holding AD.

- After the date of the financial report for 2003, IHB acquired a total of 250 thousand shares from ZMM Bulgaria Holding AD and as a result the Holding owns 99.998% of the company.
- An issue of convertible bonds

After the date of the 2003 financial report, the AGM (March 14, 2004) took a decision to issue convertible bonds with the following attributes:

- Total nominal value of the issue: up to BGN 5 250 808;
- Total value of the issue: up to BGN 5 250 808;
- Number of bonds: up to 5 250 808;
- Face value of 1 bond: BGN 1;
- Issuance value of 1 bond: BGN 1;
- Type of bonds: convertible, nominal, registered, freely transferable, not collateralized;
- Maturity: 36 months, as of the date the bond loan is deemed concluded;
- Annual coupon: 6 %;
- Coupon payments: 6 month, semi-annual on dates defined in the prospectus;

- Payment of the principal: upon maturity or through converting the bonds into shares;
- Minimum amount of funds raised for which the bond loan is deemed concluded: BGN 2 100 000;
- Maximum amount of funds raised for which the bond loan is deemed concluded: BGN 5 250 808;
- Correlation between the rights issued under the provision of §1, item 3 of the Law on Public Offering of Securities and one bond: for every 4 rights, issued against every 4 shares of the company's capital the shareholders and third parties that acquired rights through an open auction have the right to subscribe 1 bond, rounded to the smaller whole number;
- Possibility for premature payment of a part or the whole bond loan through converting the bonds before maturity: the possibility for premature payment of a part or the whole bond loan through converting the bonds may be done according to the terms and conditions described in the relevant prospectus.

The AGM authorized the Managing and Supervisory Boards to develop a prospectus for an IPO of the bonds issue and to undertake all necessary measures in relation to receiving an approval of the prospectus from the Financial Supervision Commission, division Investment Activities Monitoring. As of the date of preparation of this report the issue is in process of subscription.

No important events have taken place after the accounting year has been completed regarding the subsidiaries, excluding Liarmach AD. Leiarmach AD has concluded two credit contracts with Reiffeisenbank Bulgaria AD - one investment credit for EUR 205 thousand and an operational credit of BGN 150 thousand.

## Important scientific research and development

IHB and the companies from the group have not conducted any significant scientific research and development activities during 2003.

## Expected future development of IHB

Main tendencies:

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

The main accent in the investment strategy of IHB has been and will be focused on few main sectors with proven economic efficiency - shipbuilding and repair, machine building, renewable energy sources, real estate and tourism. The Holding will also continue to build relationships with established strategic partners with good market positions.

Significant plans for IHB

- Shipbuilding and repair sector

IHB has a long-term interest in investments in the area of shipbuilding and repair. The Holding will increase its share in companies from this sector and will take strategic positions towards competitive companies in this sector.

- Investments in renewable energy sources

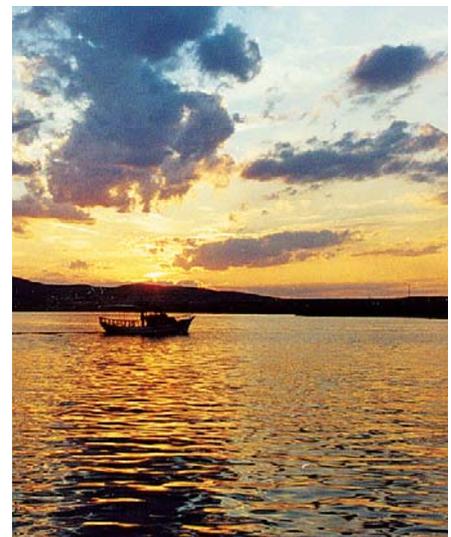
IHB is interested in sectors with high efficiency represented in its portfolio by the subsidiary Hydro Power Bulgaria. The intention of IHB is to introduce itself on the energy market in Bulgaria - water power plants and wind as a source of energy. IHB controls Elprom ZEM, which is the only producer in Bulgaria of hydro generators used in HPP.

- Investments in the tourism sector

IHB carries out a consistent policy to increase its share in the area of tourism through increasing existing investments and by making new investments in the sector.

After forming a partnership for the privatization of 80% of the capital of Dunav Tours, the investors IHB and Union Tours plan to increase the market share of the company and its subsidiaries through exploiting a market segment unused before. In the middle of March 2004 a new ship started cruises on the rivers Rhine, Mein and Danube. The funds for building the ship were provided with a credit from Reiffeisenbank Bulgaria.

After the successful investment in Dunav Tours, IHB plans to make new investments in real estate and develop holiday villages through its subsidiary Private Engineering. The construction of Kolokita holiday village on a plot of land of about 100 decars near Sozopol has been initiated. As to the moment 96 decars of land were purchased for the price of BGN 4 751 thousand, the project and the preparation of the terrain for building are in process. 110 villas with a total of 260 households will be built. The villas will be offered for sale once they are built. Private Engineering will manage the infrastructure and servicing of the resort.



## Changes in the share price of IHB

Information for the trade with IHB shares in 2003

As at December 31, 2003 all of the 21 003 235 nominal registered shares with a voting right of the Holding have been registered for secondary trade on the official segment C of the Bulgarian Stock Exchange-Sofia AD.

Statistics for the period January 1, 2003 - December 31, 2003  
/data from BSE - Sofia/

	Value	Date
Opening price (BGN)	0,25	2003-01-02
Closing price (BGN)	0,39	2003-12-23
Maximum price (BGN)	0,71	2003-09-17
Minimum price (BGN)	0,25	More than one dates
Percentage change	56%	

## Information on the program for application of internationally accepted standards for good corporate governance

### Evaluation of the program for good corporate governance of IHB

After the review of the program for good corporate governance (the Program) and the operations of IHB, we can conclude that the activities undertaken in 2003 to fulfill the tasks set forth, contribute to achieving the Program objectives. The management and personnel activities of IHB are directed towards establishing good corporate governance principles.

### Activities directed towards protecting shareholder rights

In accordance with the principle for protecting shareholder's rights, IHB Statute was amended on the AGM in June 2003. The changes were related to amendments of the Law on Public Offering of Securities. The Rules for the Operations of the Managing and Supervisory Boards were revised as well.

The requirements of the Law on Public Offering of Securities and other regulations related to public companies management were introduced to the members of the Managing and Supervisory Boards and the company managers. The latter were also briefed with regards to amendments in the legislation related to the management of public companies.

### Activities related to disclosure and transparency

In 2003 no written procedures and guidelines were developed to prohibit the distribution of insider information for the following reasons: The legislation related to disclosure of information by public companies was revised on several occasions during the year.

The process of getting acquainted with the amendments and properly interpreting the new regulations required time. Also, in order to develop effective guidelines and procedures we needed experience under the new regulations. Such experience was unavailable in any of the public companies in Bulgaria.

Even though written guidelines were missing, the management and employees were verbally briefed about the provisions prohibiting inside information disclosure. IHB established and withholds to certain procedures, in order to avoid insider information trading. Information that could be disclosed and is considered inside information has been provided to the BSE- Sofia and the Financial Supervision Commission in the shortest terms possible.

The written guidelines and procedures are part of the Program for 2004 and they will be developed, based on the experience and best international practices in this area.

In 2003, following its principles and traditions for transparency, IHB, the management and the Investor Relations Director have been preparing and presenting information concerning the Holding within the required terms, complete and with maximum accuracy. The information provided includes periodic reports, changes in the Statute, management and operations, information for the AGM and other price sensitive information. The information is provided to the Financial Supervision Commission, the BSE - Sofia and other institutions.

Throughout the year, no penalties have been imposed by the regulatory bodies, which is a good sign for the activities of the Holding with regards to disclosure.

In 2003 IHB constantly provided information to its shareholders, the potential investors and the general public. The Investor Relations Department provided assistance to the shareholders in order for them to be able to properly execute their rights. Most often, the shareholders were interested in dividend payments, the procedure for trade with securities, the AGM and the activities of the company.

The website of IHB was always updated with current information.

In 2003 the AGM was called and conducted on June 26th within the timeframe set forth by the law.

#### Providing a mechanism for good corporate governance

The procedure for calling and conducting the meetings of the managing bodies was strictly adhered to in 2003. The meetings were conducted regularly and all members were provided with the agenda and the respective materials. The latter were provided beforehand giving sufficient time for preparation before the meetings.

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

The management of IHB believes that the Program for Good Corporate Governance is effective, corresponds to the international standards for good corporate governance and assists in the achievement of the corporate governance objectives of IHB. Thus it is not necessary to reevaluate and amend the Program.

Daneta Zheleva  
CEO

