INDUSTRIAL HOLDING BULGARIA

INDUSTRIAL HOLDING BULGARIA AD

ANNUAL MANAGEMENT REPORT AND
SEPARATE FINANCIAL STATEMENTS
As at 31 December 2016

INDUSTRIAL HOLDING BULGARIA AD

Contents

INDUSTRIAL HOLIDNG BULGARIA AD

General information

Management Board

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No 42 Damyan Gruev street

Company registration number

121631219

Supervisory Board

Konstantin Kuzmov Zografov
DZH AD, represented by Elena Petkova Kircheva
Snezhana Ilieva Hristova

Audit committee

Maksim Sirakov
Snezhana Hristova
Boryana Dimova

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ANNUAL MANAGEMENT REPORT
OF INDUSTRIAL HOLDING BULGARIA AD
FOR 2016

Dear Shareholders,

The financial performance of IHB on a non-consolidated basis for 2016 is presented as follows:
Revenue of IHB for 2016 amounts to BGN 6,455 thousand.
Profit on a non-consolidated basis amounts to BGN 2,755 thousand.
Assets of IHB for 2016 on a non-consolidated basis amount to BGN 237,964 thousand and net assets amount to BGN 180,227 thousand.

In 2016, revenue from port operations reported a growth of more than 5 %, primarily due to the larger volumes of processed cargo and more active utilization of the capacity of Odessos PBM AD.

The decrease in revenue from services is due to the lower revenue from ship charting as a consequence of the lower freight rates offered on the global shipping market. The reorientation of part of the ships from voyage to time charter has had an additional effect on income.

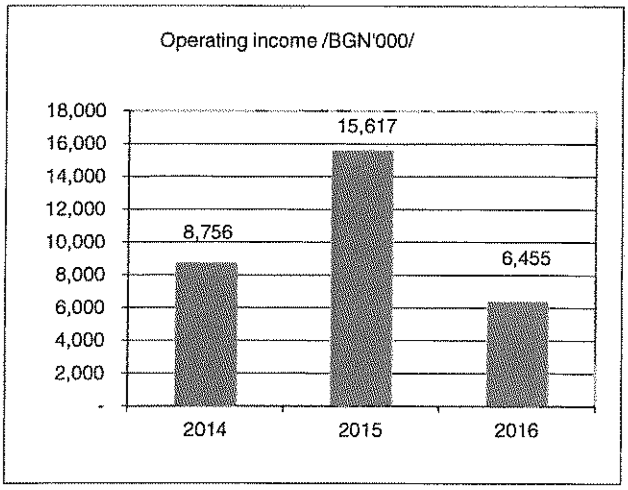
Regarding the Ship building and ship repair segment, the project for construction of section parts for ships, which began in 2015, was completed successfully in the first half of 2016, but because of financial difficulties experienced by the contracting party, the contract was not renewed, which had led to decline in revenue.

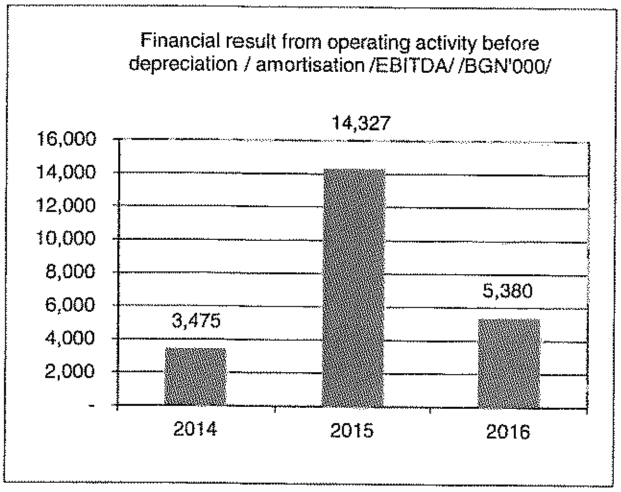
In 2016, revenue of Machine building segment grew in their part of revenue from sales of universal and lathes using software for digital management. Revenue from sales of electric machinery scored a decline.

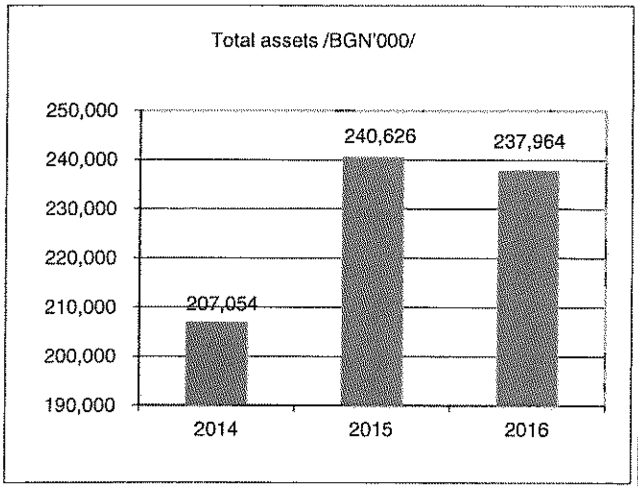
The indices of the Bulgarian capital market in 2016 indicate a growth as follows:
SOFIX grew by 27.24 %, BGBX40 grew by 19.91 % and BGTR30 increased by 19.64 %. IHB shares grew by 10.87 % in 2016.

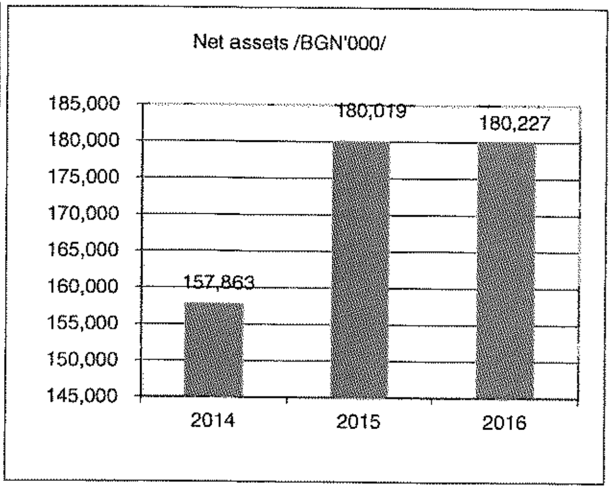
ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ

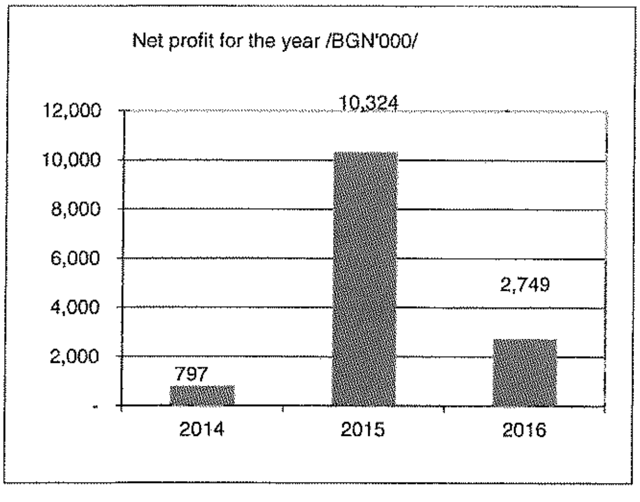
Financial indicators of IHB for the last 3 years /on a non-consolidated basis/

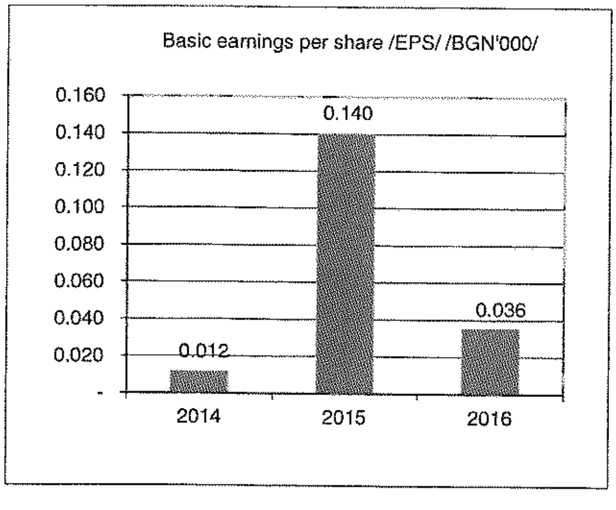


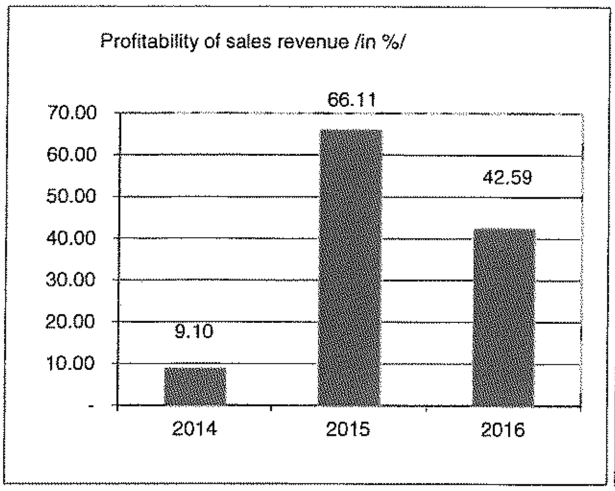


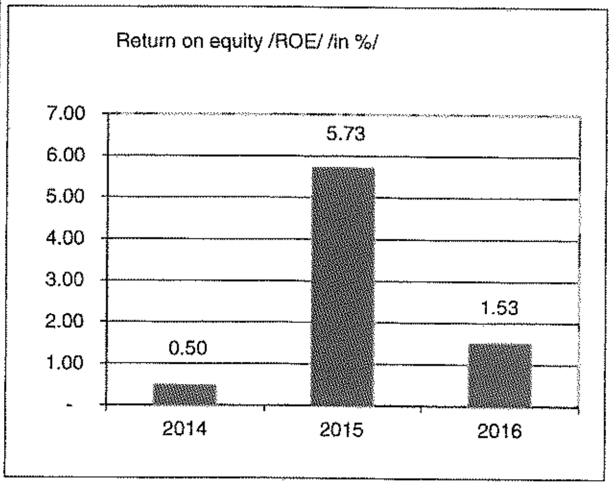


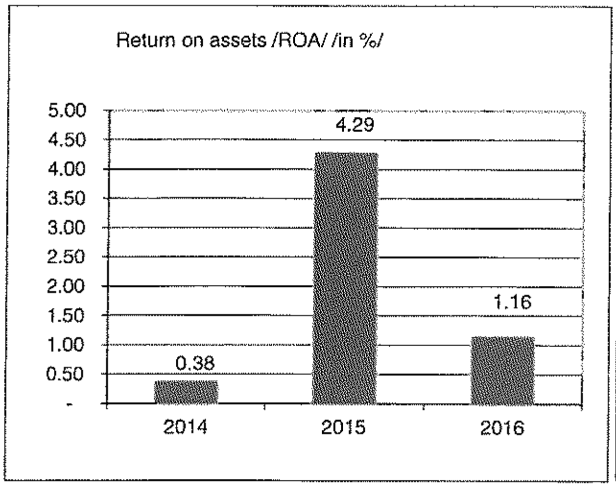


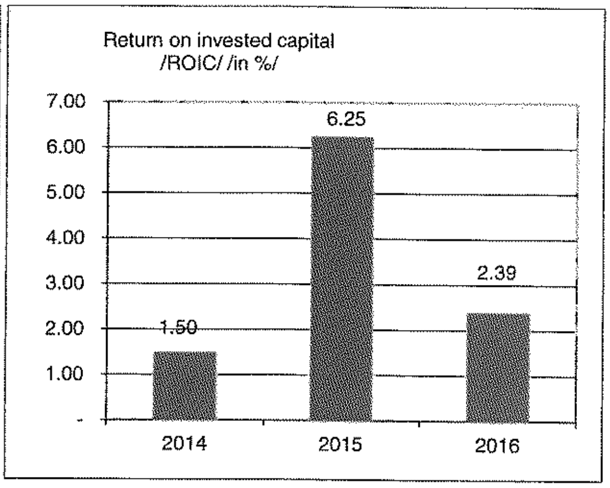


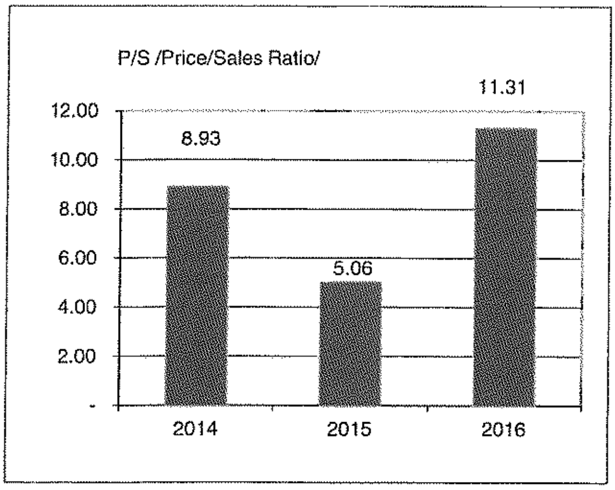


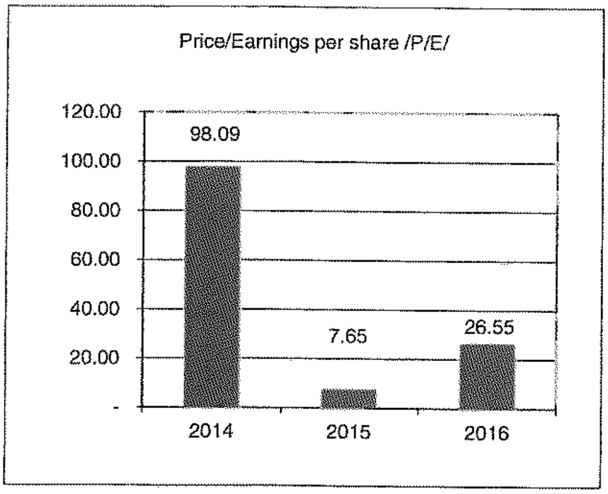

Profitability of sales revenue /in %/
66.11
42.59
9.10
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
2014
2015
2016


Return on equity /ROE/ /in %/
5.73
1.53
0.50
7.00
6.00
5.00
4.00
3.00
2.00
1.00
-
2014
2015
2016


Return on assets /ROA/ /in %/
4.29
1.16
0.38
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
-
2014
2015
2016


Return on invested capital
/ROIC/ /in %/
6.25
2.39
1.50
7.00
6.00
5.00
4.00
3.00
2.00
1.00
-
2014
2015
2016


P/S /Price/Sales Ratio/
11.31
8.93
5.06
12.00
10.00
8.00
6.00
4.00
2.00
-
2014
2015
2016


Price/Earnings per share /P/E/
98.09
7.65
26.55
120.00
100.00
80.00
60.00
40.00
20.00
-
2014
2015
2016

1. Operating results for 2016

Financial results of IHB – on a non-consolidated basis

Revenue of IHB for 2016 amounts to BGN 6,455 thousand and has declined by 58.67 % compared to that in 2015 /BGN 15,617 thousand/. Revenue in 2016 comprised:

- Interest on loans granted to the companies in the portfolio – 24.52 %;
- Dividends earned from management of subsidiaries – 74.58 %;
- Services rendered, liabilities written off on rights sold to shareholders - 0.90 %;

The drop in 2016 was due primarily to the reduced amount of dividend income received from the companies in the portfolio. Dividends were received from the following companies: Maritime Holding AD, ZMM Bulgaria Holding AD, KRZ Port Bourgas AD, Rekolta 2011 EAD (discontinued) and IHB Shipdesign AD, for the total amount of BGN 4,814 thousand (BGN 14,233 thousand in 2015).

Interest income amounts to BGN 1,583 thousand compared to BGN 1,260 thousand in 2015, and originates from interest-bearing receivables on monetary loans granted to subsidiaries.

The subsidiaries with revenue exceeding 10 % of the total revenue are as follows: ZMM Bulgaria Holding AD – 40.71 %, KRZ Port Bourgas AD – 21.77 % and Bulyard Shipbuilding Industry AD – 15.97 %.

Revenue from foreign markets amounts to BGN 116 thousand and that from the domestic market amounts to BGN 6,339 thousand.

Expenses of IHB amounted to BGN 1,160 thousand in 2016 and reported a decline by 17.96 % compared to that in 2015. Rental expenses make up the largest %age, or 15.26 %, in total expenses and relate to a rental agreement signed with a legal entity. The lessor is not a related party of IHB AD.

The profit after taxes for 2016 amount to BGN 2,755 thousand, or it has decreased compared to the 2015 profit, which amounted to BGN 10,334 thousand.

The Managing Board of Industrial Holding Bulgaria AD has not published forecasts on the results in 2016 and therefore, the ratio between the financial results achieved, as reported in the financial statements for the financial year, and the forecasts published earlier is not analysed.

Operating results of IHB

Organizational changes within the group. Portfolio restructuring.

On 25 August 2016 the transformation - merger of Rekolta 2011 EAD (a company that is 100 % owned by Industrial Holding Bulgaria AD) and Bulkari EAD (a company that is 100 % owned by ZMM Bulgaria Holdings AD) into Bulyard Shipbuilding Industry AD was registered with the Commercial Register. As a result of the merger, the capital of the successor Bulyard Shipbuilding Industry AD was increased through the issue of new 10,048,759 ordinary voting shares, of which 8,167,873 were acquired by Industrial Holding

Bulgaria AD. Industrial Holding Bulgaria AD holds already, directly or through related parties, 99.98 % of the capital of Bulyard Shipbuilding Industry AD.

On 21 December 2016, in connection with a decision passed by the General Meeting of Shareholders, the discontinuance of the activity of Bulyard AD (in liquidation), Sofia, a subsidiary of Industrial Holding Bulgaria AD, was registered with the Commercial Register and a liquidation procedure was initiated. The deadline set for the company's liquidation is six months as of 21 December 2016 - of the date of registration of the notice to its creditors with the Commercial Register.

Increasing the shareholding in some of the companies in the portfolio

In March 2016 the Company purchased 22,503 shares representing 0.21 % of the capital of Privat Engineering EAD amounting to BGN 228 thousand, and thus, it became the owner of 100 % of the capital of subsidiary Privat Engineering EAD.

In July 2016, by decision of its management, Privat Engineering AD the capital of each one of its subsidiaries was increased, as follows:

- Emona Ltd, by USD 2,000 thousand,
- Karvuna Ltd. by USD 3,000 thousand; and
- Tirista Ltd. by USD 3,000 thousand,

through capitalization of loans granted.

In July 2016, by decision of its management, KLVK AD increased the capital of each one of its subsidiaries, Odria Ltd. and Serdika Ltd. by USD 4,000 thousand, through capitalization of loans granted.

In 2016, ZMM Bulgaria Holding AD, Sofia, a subsidiary of Industrial Holding Bulgaria AD acquired, through purchases at BSE, 104,562 shares of the capital of IHB Electric AD, representing 8.62 % of the capital of IHB Electric AD. Thus, the shareholding was increased from 85.18 % to 93.80 % of the capital of IHB Electric AD. In January 2017 the Board of Directors of IHB Electric AD passed a decision to reorient the activity into a new direction. The company will complete all ongoing projects and orders accepted and then, it will discontinue the manufacture of electric machinery currently part of the plant's product range. For all machines produced so far, guarantee and post-guarantee services will be ensured, in accordance with the guarantee terms and conditions, and contracts concluded.

Sale of shares from the portfolio

As a result of a transaction finalized in November 2016, Industrial Holding Bulgaria AD transferred 5,000 shares, or 5 % of the capital of IHB Shipdesign AD and as a result, its shareholding in the subsidiary was reduced to 70 % of the capital.

As at 31 December 2016 the Company's management conducted an analysis and established that there were indications of impairment of some of its investments in subsidiaries. As at 31 December 2016 the carrying amounts of investments in Privat Engineering EAD, KLVK AD, Bulyard Shipbuilding Industry AD and Bulyard AD – in liquidation were BGN 57,220 thousand, BGN 46,096 thousand, BGN 63,371 thousand and BGN 825 thousand respectively. In 2016, the Company recognised impairment loss of BGN 34 thousand on its investment in Bulyard AD – in liquidation (Impairment loss on the Company's investments in the other above-listed entities was not recognised in 2015).

As at 31 December 2016 the portfolio of IHB, directly and through related parties, comprised 22 entities, as follows: 10 subsidiaries and 12 subsidiaries of subsidiaries.

Direct investments of IHB in corporate securities at the year-end amounted to BGN 203,424 thousand, including BGN 130 thousand investments abroad.

IHB has no investments in securities outside its economic group or investments in real estate and financial instruments. Further details are disclosed in Notes 12 and 13 to the separate financial statements as at 31 December 2016.

Structure of the portfolio of IHB at 31 December of the last 4 years

Business direction	**2016**	**2015**	**2014**	**2013**
Maritime transport	50.8 %	50.7 %	52.2 %	84.0 %
Ship building and ship repair	31.6 %	30.5 %	31.4 %	2.1 %
Port activity	13.5 %	13.5 %	10.9 %	5.2 %
Machine building	3.9 %	3.9 %	4.0 %	6.4 %
Other activities	0.2 %	1.4 %	1.5 %	2.3 %
Investments, in BGN'000	**203,424**	**203,235**	**197,392**	**122,784**

Management of subsidiaries

Pursuing the goals set at the start of the year regarding its subsidiaries, in 2016 IHB continued to participate actively in the strategic planning of their operations. IHB encouraged and facilitated:

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

Changes in the basic principles of management of the IHB Group subsidiaries and of the Company itself were not made during the reporting period.

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

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

Basic non-financial indicators measuring the operating result

In addition to monitoring its financial ratios, the Company monitors also certain basic non-financial indicators relating to its activity and to the operations of its subsidiaries.

The main non-financial indicators relate to the following:

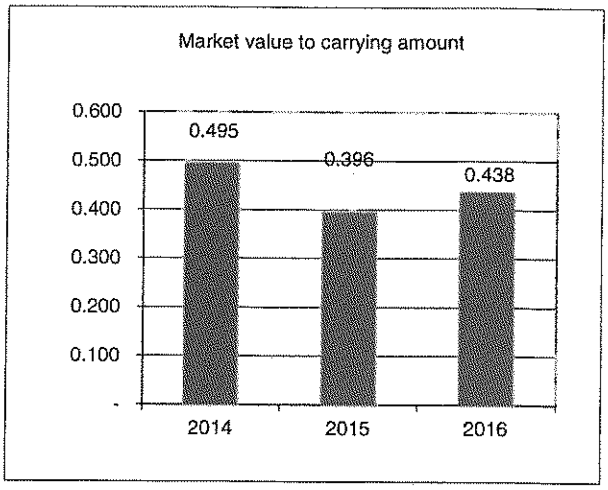
- *customer satisfaction* – the group subsidiaries observe the procedures developed within the scope of ISO quality management systems. There are no lawsuits brought against IHB and the group companies on matters relating to the safety of products being offered;
- *quality of products offered* – IHB ensures that the group subsidiaries will monitor the quality of products manufactured by them through indicators, such as number of claims, %age of claims to the total number of products manufactured, etc. Indicators measured have low values. The quality level is part of the personal business assignments of the executive officers;
- *employees' satisfaction* – IHB ensures that the group subsidiaries exercise control on compliance with the regulatory health and safety requirements and their constant improvement. The entities implement programs financed by EU funds, invest their own resources, and observe the instructions of the competent authorities. The development and training of employees is an important factor for their satisfaction – IHB monitors on a regular basis the structure and composition of the subsidiaries' employees (age, education, number of year at the Company) and seeks to ensure opportunities for their professional development. Moreover, centres for professional qualification are established within the subsidiaries, active relationships are maintained with a number of higher education institutions and traineeship programs are implemented
- *ecology* – IHB requires the subsidiaries to report annually on the environmental assessment and measures taken to prevent any negative impacts. Significant administrative sanctions to combat offences against the environment were not imposed on the group.

Many of the issues relating to the employees satisfaction and ecology have been incorporated in the Code of Ethics implemented by the Company and the approved Policy of diversity.

The Company has undertaken to comply with the National Corporate Governance Code, approved by BSE-Sofia, the main purpose of which is to encourage and approbate best practices of corporate governance. On the grounds of the annual reports *Comply or Explain*, submitted by IHB, the Company has been a listed company with a good corporate governance index CGIX (Corporate Governance IndeX) since the very start of its calculation, which continues today. The index was introduced on 19 September 2011 with a value of

100 points and as at 31 December 2016 it already amounted to 145.83 points.

IHB monitors the growth of the group and its investment opportunities, calculating the ratio of the Company's market value to its carrying amount:



Cooperation for funding of the subsidiaries. Information about transactions

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

In 2016, loans granted by IHB AD to its subsidiaries (direct and indirect) amounted to BGN 2,619 thousand. Interest rates charged on these loans vary from 3 to 5 % and the loans mature from March to December 2018. Loans amounting to BGN 6,195 thousand were repaid in 2016. As at 31 December 2016 receivables on loans granted to subsidiaries amounted to BGN 34,056 thousand /long-term loans of BGN 33,869 thousand and short-term loans of BGN 187 thousand/ compared to BGN 36,771 thousand in 2015 (total long-term and short-term ones).

In 2016 IHB did not provide collateral to its subsidiaries.

As at 31 December 2016 the balance of the liabilities (receivables) on loans granted and respectively, received, including interest among the subsidiaries of IHB, amounts to BGN 95,392 thousand. Interest rates on these loans vary from 2.50 % to 3 % and are to be paid from April 2017 to January 2023.

As at 31 December 2016 the balance of the liabilities of a subsidiary of IHB on a loan received, including interest due by the company that is under a joint control in accordance with IAS 24, amounts to BGN 2,265 thousand. The interest rate on the loan is 4 % and the term of repayment is June 2018.

As at 31 December 2016 the balance of the liabilities of the IHB subsidiaries on the loans received, including interest due by the company that is under a joint control in accordance with IAS 24, amounts to BGN 12,799 thousand. Interest rates on the loans vary from 3 % to 4 % and mature from May 2017 to July 2018.

As at 31 December 2016 the balance of the liabilities of the IHB subsidiaries on the loans received is as follows:

Type of loan	Currency	Interest rate %	Maturity	Balance as at 31 December 2016 (in BGN'000)
Secured bank loan amounting to BGN 19,345 thousand (JPY 1,122,594 thousand)	JPY	JBIC+2.5 %	2018	3,336
Secured investment loan amounting to BGN 814 thousand	BGN	1 M SOFIBOR +2.9 % but not less than 2.9 %	2019	252
Secured bank loan amounting to USD 11,000 thousand	USD	1 M LIBOR + 2.5 % but not less than 2.95 %	2018	4,283
Secured bank loan amounting to USD 37,300 thousand	USD	3 M LIBOR + 2.25 %	2017	50,676
Secured investment loan amounting to EUR 400 thousand	EUR	3 M EURIBOR + 2.9 % but not less than 2.9 %	2020	651
Credit line for working capital amounting to BGN 4,000 thousand*	BGN	1 M SOFIBOR +2.9 % but not less than 2.9 %	2018	3,077
Total				**62,275**

*IHB has a contract for provision of a credit limit for issuance of bank guarantees to the Company or to its subsidiaries, opening of letters of credit and working capital financing from 2006 with a commercial bank with credit limit of BGN 10 million and options for disbursement in BGN, EUR and USD. The commitment of the bank for issuance of bank guarantees and opening of letters of credit is by 26 August 2018 and the credit line matures on 26 September 2017. The collateral for this contract is a pledge of the commercial undertaking KRZ Port Bourgas AD.

By annex dated October 2016, the maximum amount of the credit line for working capital was increased from BGN 3,000 thousand to BGN 4,000 thousand, and the maximum limit of BGN 10,000 thousand is preserved.

As at 31 December 2016 bank guarantees amounting to BGN 1,056 thousand were issued (compared to BGN 1,101 thousand issued in 2015 г.), letters of credit amounting to BGN 0 were opened (compared to BGN 98 thousand in 2015) and a revolving credit line for working capital of BGN 4,000 thousand was opened (2015: BGN 3,000 thousand).

The Company has no information about loans and guarantees, provided or received by a company exercising joint control on IHB AD in accordance with IAS 24, besides the group of IHB AD.

In 2016 IHB did not conclude any large transactions and such of significant importance, except for investments in subsidiaries and financing contracts of the subsidiaries and the merger of the direct subsidiary Rekolta 2011 EAD into Bulyard Shipbuilding Industry AD.

Related party transactions in 2016 include provision of loans from IHB AD to group companies and deposits, interest income, and respectively, interest expenses, repayment of loans from the subsidiaries to IHB and vice versa, revenue from sales of services, revenue from sale of shares, and dividend income.

The transactions during the period were at arm's length.

The loans that IHB granted to / received from its subsidiaries in 2016 bear fixed interest rates.

Information about transactions concluded between IHB and related companies during the year is disclosed in Note 20 Related Party Disclosures of the Notes to the Separate Financial Statements as at 31 December 2016, which indicates the type and value of the transactions and the nature of the relation and control.

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

In 2016 there were no events and indications of unusual nature for IHB with material impact on its business.

In 2016 the Company did not report off-balance sheet transactions.

2. Financial resource management. Financial instruments used. Financial risk management

Description of the main risks and uncertainties facing the Company

Non-systematic company specific risks

Risks associated with the holding structure and the structure of the portfolio of IHB

In so far as the activity of the Company relates to management of other companies' assets, it is exposed to the Group subsidiaries' industry risks. The Holding's investments are focused on industries characterised by slow turnover of funds invested (machine-building), dependency on energy and other resources (machine-building, ship repair, maritime transport) and high cyclicity (ship repair, ship design, maritime transport, port activity), thus reducing the return on the investment portfolio of the Holding as a whole.

Risks arising from the development of the global economy and trade

Factors influencing the world economy, trade and all business subjects are heterogeneous. In 2016, the freight market reached new, unexpectedly low levels. The first half year was extremely difficult. There has been a slight increase over the second half year, however, the market levelled off at a very low level due to the lost balance between the ship tonnage offered and the needs of exporters and importers. Despite having a relatively good speed of cutting old ships, the large number of cancelled and postponed orders for new construction and a few new orders accompanied by bankruptcies, closing down of shipyards and curtailment of their volumes, the existence of an over-tonnage is the main reason underlying the industry crisis and the lower freight and cargo carriage rates. The political instability in many places is another important cause of this development. The oil prices, summarising the fuel-related problems globally, also affect the situation. On the one hand, the oil may be a structural cause of conflicts, and on the other hand, its price and availability could cause ups and downs at the freight market, as the ship fuels are the main raw materials for the industry, as also a commodity. The weak freight market impacts adversely the ship repair industry by minimising the costs of repair to the levels required by law.

Risk of political instability in traditional markets and regions, military activities and/or penalties imposed

This risk arises from future changes in economic policies necessitated by objective economic or political circumstances. The mass exodus of refugees toward Europe and in particular, toward Bulgaria, as an EU external border, is a negative result of these processes as well. This risk affects primarily maritime and port businesses, as it leads to changes in trade flows and transport corridors, and makes access of registry inspectors to the inspected ships more difficult. In addition, the risk impacts the machine building industry, as it reduces the volume of sales in traditional markets (such as the Russian and the Turkish markets).

Risks relating to environmental legislation

The legislation of the Republic of Bulgaria regulating environmental matters presumes compliance with a number of measures for prevention, control and reduction of various types of environmental pollution. It is a policy of the Holding to comply with all legal requirements in this respect, which requires fixed costs for alignment and maintenance of the equipment and processes in accordance with the required standards and norms. All investment projects comply with the environmental protection requirements.

Risks relating to attracting and retaining experienced and qualified employees

Taking into account the problems concerning the effectiveness and applicability of the Bulgarian educational system, and the demographic collapse in the country, many sectors of the economy are experiencing a capacity crunch. Employees' professional qualities affect directly entity's financial results and innovation performance. The risk is reinforced by the convertible nature of some professions, their shortage and high worldwide demand for such staff (professionally trained and motivated seamen and officers, registry inspectors, Professional technical and engineering personnel and workers – welders, hull workers (hull fitters), pipe fitters, etc.). Competition among employers is high. The most affected segments are that of machine building, experiencing a serious shortage of mid-level specialists and engineers, maritime transport, ship repair, ship design, classification and certification segments. Management has taken a long-term approach to human resource management, which is related to preliminary and subsequent qualification of staff, as well as a close cooperation with the academic society in the country.

Credit risk

The credit risk is the risk of possible financial loss if a client or a party to a financial instrument fails to perform its contractual obligations. The risk is mainly related to receivables from clients and investments in other financial assets.

Receivables from clients – The Group's credit risk exposure depends on the customer's individual characteristics that differ between sectors. The most affected segments are that of ship building, classification and certification, and port activities. The Group's credit policy provides for that each new client shall be investigated for solvency before being offered the standard delivery and payment terms and conditions. Besides the price offered, when selecting a potential client or a charterer managers consider its credit rating, reputation, popularity, recommendations, etc.

Investments – The Group invests mainly in businesses and companies where the Holding holds the control and power to determine their development strategy. Part of investments are made over considerable periods of time, during which it is possible that the Group will receive a very limited yield, lower profits, and may even experience losses.

Guarantees - It is a policy of the Group to issue financial guarantees only to subsidiaries and only after obtaining the preliminary approval of the managing bodies. There is a risk that the guarantees may be utilised in the event of non-performance of the covered liabilities.

Liquidity risk and cash flow risk

Liquidity risk is the probability that the Group will be unable to meet all its obligations when they become due. Such risk may arise in case of delayed payments by clients. The Group companies elaborate financial planning to cover their expenses and current payables for a period of 90 days, including settlement of financial liabilities. Where possible, a deferred payment to suppliers and subcontractors is applied in combination with the above measures, but without affecting negatively their businesses. The Holding's management supports the Group companies' efforts towards attracting bank financing for investments and capacity utilization in the form of revolving credits for working capital in support of production. The volumes of funds attracted are maintained at pre-determined levels and approved only after their economic effectiveness for each company has been proven.

In recent years, the management's policy has been directed towards accumulation of fresh resource from the market – in the form of shares/stocks, debentures or other financial instruments, to be invested in the subsidiaries in two directions: granting of loans to Group companies to be used to finance their projects and acquiring shares of their capital, incl. subscribing shares from capital increases. With respect to the debenture issue of the Holding, there are terms and conditions set that, if violated, could result in making the loan early payable by the respective company, prior to its maturity.

Currency risk

Some of the Group companies are exposed to currency risk as they perform purchases and/or sales and/or receive loans in currencies, other than the functional currency. Aiming at minimising the Group's exposure to currency risk, the Holding's management minimised the payments in foreign currencies other than their functional currency in the operating activity of most companies. The goal is that transactions with customers and suppliers are agreed primarily in BGN and EUR for those companies, the functional currency of which is the Bulgarian lev, and in USD for the shipping companies, as the US Dollar is also the main currency of operation of the international ship business. Nevertheless, there are contracts concluded for the supply of ship equipment in JPY and a Group company operates a loan denominated in JPY. The increase in the revenue share from foreign ships in total sales strengthens the impact of currency risk on the financial results of the Bulgarian register. There is a currency risk with respect to the contracts for purchase of shares of the capital of Odessos PBM AD and Bulport Logistics AD denominated in USD, a risk that management attempts to compensate by revenue in the same currency.

Interest rate risk

The Group companies are exposed to interest rate risk as the loans are agreed usually with floating interest rates corresponding to the current market prices.

Systematic risks

The Holding and its subsidiaries are exposed to systematic risks relating to the market and macro-environment in which the companies operate. These risks cannot be managed and controlled by the management team.

The main financial undertakings of the Company relate to investment projects - of the Company and its subsidiaries.

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

IHB has liabilities to bond holders in relation to the issue of convertible bonds in 2015, maturing on 10 April 2018. IHB has a credit line for issuance of bank guarantees, opening of letters of credit and working capital financing to IHB and its subsidiaries from a commercial bank. The limit amounts to BGN 10,000 thousand.

IHB provided guarantees and sureties to cover liabilities of subsidiaries. At this stage there is no risk that the subsidiaries will not meet their commitments for which these guarantees were issued.

IHB has exposure in US dollars on deferred payment of shares acquired of the capital of Odessos PBM AD. Given the exposure in US dollars, in order to manage foreign exchange risk the Company carried forward transactions to hedge fluctuations of USD/EUR exchange rate and cash flow management. As at 31 December 2016, there were no opened positions on such forward transactions.

Further information regarding the financial instruments used, risk assessment and financial risk management is disclosed in Note 22 Financial Instruments to the separate financial statements.

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

Maritime transport

The downward trend observed in 2015 in the freight market continued in the first six months of 2016 as well. The gradual recovery of all types of maritime transport has begun since the second half of 2016.

The global economic situation and uncertainty in many places around the globe play a significant role in the downward market trend in recent years. Additional adverse factors are the military conflicts around the world – such as in Ukraine, Syria, Iraq, Libya, Israel, Yemen, Somalia, Nigeria, and elsewhere. Even if quick conflict resolution to be achieved, the negative tendencies will remain for long period of time. In particular, the situation in our segment of the ships for bulk cargo was affected by the number of scrapped vessels and the large numbers of new ships that have become and are becoming operational. As a result, over-tonnaging is much greater than the demand for tonnage. The good news in 2017 is that the rate of scrapped vessels reached record high levels. On the other hand, there is a large scale effort in cancellations of newbuildings on order, as well as extensive delays on delivery dates. There are hardly new orders. Taken together, all these factors, if continue developing throughout the entire year of 2017, will allow for a gradual recovery in dry bulk market. The gradual increase of movements in all types of cargo globally is a good indicator for a future higher demand for maritime transport. These factors will have an effect throughout the entire year.

Ship building and ship repair

On a global scale, the crisis curtailed to a lesser extent costs of ship repairing and maintenance compared to costs of their construction. The production capacity of **Bulyard Shipbuilding Industry** is used primarily for ship repairing, production of metal structures and warehousing. The existing requirements regarding ships technical safety standards are being strengthened and new ones implemented, leading to the necessity for more frequent repairs, which in turn is a favourable factor for ship repair operations. Following the decline in ship repair in 2016, it is estimated that the number of repaired ships will increase in 2017. It is a goal of the Company to continue utilising its production capacity for ship repairing, ship reconstruction and manufacture of metal structures. In 2016 the company completed all six contracts for construction of additional hull structures for dry cargo vessel, which were signed in 2015. The trends in entity's operations to date are to further develop and explore new markets in the area of ship repairing and offshore industry. A project for production of metal structures relating to green energy generation is about to be finalised. Experimental work on this project has already begun. The Company continues to reconstruct its warehouse base in order to rent it out or to use it for other production alternatives.

In 2016 **IHB Shipdesign** continued working on ongoing projects and launched projects with new customers, thus penetrating into new markets. The company continued developing in 3D laser scanning. In 2016 the rules of International Maritime Organization (IMO) and USCG, requiring the vessels to use retrofit installation of ballast water treatment systems, entered into effect. There has been increasing demand for services of companies able to scan vessels and to prepare documentation for adapting the ships in compliance with the new requirements. The management team is actively involved and will continue its efforts to better present the services of the Company in this area and to establish it on the international market, into this niche.

In 2016 the company worked with large companies from the Netherlands, Norway and Romania.

The company delivers quality services and provides relatively speedy delivery, flexibility and technical skills. The company aims to offer design services in highly specialized areas.

The main goal of IHB Shipdesign in the following years is to strengthen the positions already gained and to expand the scope of its activity and partnerships in the areas of specific competence and advantages. One of the key tasks of the Company is to strengthen its position in the new market niche, the so-called *reverse engineering* and 3D scanning.

Yet another task of the Company is to improve the qualification of its employees aiming at covering a broader range of services at minimum costs. The Company aims at extending the scope of the services offered by the Company in the area of ship design in both cargo and passenger and cruise ships.

The trend in 2017 is for the Company to offer more complex services, to preserve the trends for specializing of ships servicing offshore floating platforms. Also, the Company will seek to strengthen its positions in areas of engineering sciences relating to ballast water treatment systems and 3D laser scanning.

Port business

The trends in the port business depend on the economic climate in the countries from the Mediterranean and Black sea regions, as also the domestic and regional levels.

Since KRZ Port Bourgas and Odessos PBM are of regional importance, their existence depends on the economy of the South-eastern and North-eastern regions of Bulgaria, and in particular, the segments of construction, agriculture, aggregate extraction, and infrastructural projects.

In 2017 as well, the policy of **KRZ Port Bourgas** will continue to attract new cargo flows and to modernise the port infrastructure. The Company's operations will develop in the direction of increasing cargo of grain in view of the consistent upward trend in agricultural activities in the South and South-eastern Bulgaria.

The efforts of **Odessos PBM** management are directed towards attracting more general new cargo handled in pier and construction of new storage facilities aimed at processing combined ship batches. The aim is to attract as many as possible ship batches from region carried at cargo vessels of 6,500 – 7,000 DWT. Investments made allow higher volumes of general cargo flow passing through the pier front, as also of bulk cargo handled. New opportunities for handling ships in pier with a maximum deadweight will be sought as well.

Bulport Logistics operates mainly on the Bulgarian market. In 2016 Bulport Logistics AD offered services relating to small boats and yachts mooring and small ships docking repair and leasing of premises for rent storage and production activities.

In 2016 the port occupation with mooring vessels was 100 %. It was built pontoon platform, which helped to increase revenues from port operations.

The trend in 2017 is to increase the number of small vessels to be repaid. The strategy of the company is to attract new customers and in the longer term, the construction of new indoor storage, by improving the technical conditions of the existing buildings and grounds.

Machine building

Metal cutting machinery

Demand for machine tools can be defined as relatively stable over a longer period, with fluctuations and decline in every 3-4 years. This is determined by products with long life cycle that are sold to a wide range of clients – both from a geographical point of view and machinery utilisation. The overall economic situation of the particular market has a significant impact on demand. The oil price fluctuations also have their effect.

The trend of a higher volume of orders and sales compared to the same period in 2015 has continued. The growth is mainly due to the growth of West European markets (Germany, Italy, France, Austria), as well as of some Latin American countries, such as Peru, and Central Asian states, such as Kazakhstan. An encouraging fact is that despite the low oil prices in the US, the sales in 2016 grew considerably compared to those realised in 2015. Russia closed the year reporting an insignificant decline, which is a definite success taking the situation in the country and continuing sanctions.

The constant and active quest for expanded trading activities directed towards finding new markets and strengthening the position on existing markets continues. That is particularly necessary against the background of the events in Russia and Ukraine, including international sanctions imposed against Russia, the wars in Syria and Iraq, which has had an inevitable impact on the market of investment goods in these countries.

There are constant efforts to upgrade production business by way of machinery modernization and development of new models and assemblies. The company focuses strongly on the production of digital machines and offering of heavy machines.

Electric and hydro generators manufacturing and repair

In 2016, considering the unfavourable situation in this segment and worsen financial position, management of IHB Electric AD passed a decision to discontinue the manufacture of electric machinery currently part of the plant's product range and to complete all ongoing projects and orders accepted. For all machines produced so far, guarantee and post-guarantee services will be ensured, and the Company will gradually reorient its activity into a new direction. The focus was directed entirely on completing the ongoing production orders and ensuring maximum comfort and adequate servicing of all existing clients. The necessary measures to improve the financial performance of the Company were taken as well.

In 2017 the Company's management will direct its efforts to maximise use of available machinery, installations, equipment, buildings and know-how developed over the years. Activities relating to improving the infrastructure and optimizing the existing buildings will be a priority.

Classification and certification

The trend of a lower number of transport operations by sea and consequently, lower freight rates, which reached record lows, continued in 2016 as well. The political crisis in Europe and the Middle East, and the sanctions imposed on the countries involved in these conflicts, the terrorist acts and in addition, the low oil prices have had an additional negative effect on the maritime business.

As a result of these factors, durable effects were formed, affecting negatively the market, such as:

- retirement from use of a large number of ships due to low or negative profitability;
- excessive restraint by the ship owners and managers on repair costs and maintenance of ships in good working conditions;
- reduced interest for investments in new ship building, reconstructions and repairs;
- the fall in prices of inspections carried out by all classification organisations, which is likely to intensify competition in the market.

The ship owners continue to fight for survival through shrinking activities and expenses, with the consequences thereof directly affecting the overall activity of the Company.

It is expected that in 2017 the scope of services will be preserved, with a trend towards a slight increase.

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

In 2016 IHB met its needs to secure the operating costs with own funds. The own funds result from revenue from main activity. In 2016 sources of revenue for IHB were interests on loans provided to subsidiaries, dividends received from subsidiaries, and sales of services. Part of these funds was redirected by the Holding for funding of its investment program.

In April 2015 the General Meeting of Shareholders took a decision for the issue of a new convertible bonds issue with a total issue value up to BGN 49,999,600. At the time of preparation of this report, IHB AD has utilized all funds accumulated as a result of this bond issue.

In 2016, on 10 April 2016, IHB AD made the second and on 10 October 2016 the third interest payment on the bond issue.

Management of the Holding restructured the available cash resources in the course of implementation of its mid-term investment intentions within the Group with respect to the occurring changes in proprieties, changes in the market environment and taking into account the outlined trends and uncertainties regarding the development of the entities operating in various industries.

Projects, which have already begun, are financed with priority. The investment projects of the group companies are financed in the order of their occurrence. Projects, which have begun already, and need funding at a particular moment, are financed with priority. For some of the projects, besides funds accumulated through the bond issue, are used also own funds depending on the amount of investments required and the available cash at the specific time. IHB AD is ready to cover its needs of financial resources for ongoing projects through bank financing and lease schemes as well. If necessary, the Holding will continue to currently finance the development of the group companies. Capital expenditure for new acquisitions and business enlargement are also possible. The decisions about the amount and sources of necessary funds are taken on a case-by-case basis.

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

As at 31 December 2016 IHB receivables amount to BGN 34,188 thousand, of which long-term amounting to BGN 33,869 thousand and short-term amounting to BGN 319 thousand, compared to BGN 36,827 thousand as of 31 December 2015. The main portion thereof represents related party receivables under cash loans extended and services provided to the amount of BGN 34,175 thousand. The remaining balance of BGN 13 thousand represents other receivables (BGN 39 thousand in 2015).

Net assets of IHB as at 31 December 2016 amount to BGN 180,227 thousand and have increased by BGN 208 thousand or by 0.12% compared to 2015.

Total liabilities of IHB as at 31 December 2016 amount to BGN 57,737 thousand compared to BGN 60,607 thousand as at 31 December 2015. They consist mainly of a debenture loan liability of BGN 50,544 thousand and trade and other payables of BGN 7,172 thousand.

3. Important events, which have occurred after the reporting date

In January 2017 the Company repaid in full its liability to KRZ Odessos AD amounting to BGN 1,467 thousand and interest due thereon amounting to BGN 41 thousand under a contract for purchase of shares of the capital of Odessos PBM AD. The pledge established on these shares was released upon the repayment of the liability.

In February 2017, the Company sold 210,000 treasury shares at an average weighted price per share of BGN 0.966. In March 2017 and until the date of approval of the annual financial statements for issue, the Company has not carried out any transactions relating to the decision for redemption of shares. The total number of treasury shares held by the Company at the date of approval of the financial statements was 920,985 shares.

The regular General Meeting of Shareholders of Maritime Holding AD, held on 09 March 2017, approved the distribution of dividend of BGN 1.27 per share.

The regular General Meeting of Shareholders of ZMM Bulgaria Holding AD, held on 16 March 2017, approved the distribution of dividend of BGN 0.564 per share.

The regular General Meeting of Shareholders of KRZ Port Bourgas AD, held on 20 March 2017, approved the distribution of dividend of BGN 0.45 per share.

At the date of approval of the financial statements, by decision of the Board of Directors of BSE-Sofia dated 06 March 2017 to rebalance the major stock market index SOFIX, IHB AD was withdrawn from the index. This resulted in a decline in the stock market price of the Company's shares. In relation to the way the index had been rebalanced, FSC conducted an investigation, which resulted in the issuance of a recommendation to BSE-Sofia to change the method of calculating the SOFIX index in the future.

Besides the disclosed above, no other events have occurred after 31 December, which require additional adjustments and/or disclosures in the Company's separate financial statements for the year ended 31 December 2016.

4. Important scientific research and development

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

The group companies of IHB carry out continuous R&D activities with regard to their products and technologies. The more important innovation efforts of the teams are directed towards improvement of the offered products and development of innovative products.

5. Future development of the Company

Main trends with regard to the activity of IHB

The main trends in the activity of IHB in the following years are expected to continue to be related to:

- Acquisition, assessment and sale of shares in other companies;
- Management of the companies in the portfolio;
- Establishment of new companies
- Investment in companies from the portfolio in which IHB has long-term interests;
- Financing of companies in which the Holding participates.

The key strategic interests of IHB are in the following industries and activities:

- Maritime transport;
- Shipbuilding and ship repairing;
- Port activities;
- Machine building

Plans of material importance related to the activity of IHB

In the following years new capital costs within the Group may be made in the cases of funding of new projects or development of already launched projects of IHB and of its subsidiaries, including in connection with the expansion of the port terminal in Bourgas, upon conclusion of contracts for purchase of ships, investing in Odessos PBM, etc. If necessary, the Holding will continue to currently finance the development of the group companies.

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

Decisions about the amount and sources of the necessary funds are taken on a case-by-case.

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

The price of the shares of IHB reported a growth from BGN 0.920 (the last average weighted price in 2015) to BGN 1.020 per share at the end of 2016, or a 10.87 % growth. For the purpose of comparison, the movement of indices of BSE-Sofia for the same period was as follows: SOFIX: a 27.24 % growth, BGBX 40: 19.91 % growth, and BG TR30: a 19.64 % growth.

In 2016 data about the trade in shares of IHB /ticker 4ID/ is as follows

Statistic for the period 01 January 2016 – 31 December 2016 (information issued by BSE-Sofia)

	Value	Date
Last average weighted price (BGN)	1.020	30-12-2016
Maximum average weighted price (BGN)	1.042	
Minimum average weighted price (BGN)	0.750	
Average weighted price for 2016 (BGN)	0.943	
%age change on the basis of data for accounting purposes*	10.87 %	
Number of transactions in 2016	598	
Traded volume in 2016 (number of shares)	1 768 555	
Turnover in 2016 (BGN)	1 667 568.25	

* Values have been adjusted (in case of increase of the Company's capital, dividend distribution, reduction of the nominal value per share, etc.).

At the date of approval of the financial statements, by decision of the Board of Directors of BSE-Sofia dated 06 March 2017 to rebalance the major stock market index SOFIX, IHB AD was withdrawn from the index. This resulted in a decline in the stock market price of the Company's shares. In relation to the way the index had been rebalanced, FSC conducted an investigation, which resulted in the issuance of a recommendation to BSE-Sofia to change the method of calculating the SOFIX index in the future.

Shareholding structure as at 31 December 2016

The capital of IHB as of 31 December 2016 amounted to BGN 77,400,643.

			As at 31 December 2016
Shareholders	*Number of shareholders*	*Number of shares*	*% of the capital*
All	54460	77 400 643	100.00 %
Legal entities	99	69 410 856	89.68 %
Individuals	54 361	7 989 787	10.32 %
Shareholders holding over 5 %, inclusive	5	48 218 079	62.30 %
Venside Enterprises Limited		20 399 604	26.36 %
Bulls AD		13 037 921	16.84 %
DZH AD		4 732 574	6.11 %
VPF Allianz Bulgaria AD		5 032 314	6.50 %
ZUPF Allianz Bulgaria AD		5 015 666	6.48 %
Shareholders holding under 5 %	54455	29 182 564	37.70 %

7. Data for trading in bonds of the Company

On 21 May 2015 the trade in IHB corporate bonds, issue 2015, started at BSE-Sofia AD, bonds segment. The ticker is 4IDF. The issue amount is BGN 49,999,600 and the number of bonds is 499,996 of nominal value of BGN 100 each. The market lot is one lot equalling 10 bonds. The registered order price is expressed as a %age of the nominal of one market lot /net price/ and the price of a bonds purchase and sale order excludes the interest accrued as of the last interest payment until the order registration. The listing price as at 21 May 2015 was 100 % of the nominal.

Cash settlement on the transaction is in Bulgarian levs.

Statistic for the period 01 January 2016 – 31 December 2016 (information issued by BSE-Sofia)

	Value	Date
Last average weighted price	BGN 1,006.027	30-12-2016
Maximum price	BGN 1,019.672	
Minimum price	BGN 1,001.507	
Average weighted price for 2016 *	BGN 1,011.033	
Number of transactions in 2016	11	
Traded volume in 2016	696 lots*	
Turnover in 2016	BGN 703,678.95	

* 1 lot =10 bonds

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

In connection with the decision of the General Meeting of Shareholders dated 17 December 2012 for shares buy back (redemption), the total number of shares redeemed in 2016 is 41,730 shares (par value of BGN 41,730)(0.54 %) at an average weighted price per share of BGN 0.810.

For the period 01 January 2013 - 31 December 2013, 967,141 shares were redeemed at an average weighted price of BGN 0.794 per share and for the period 01 January 2014 - 31 December 2014, 6,125 shares were redeemed at an average weighted price of BGN 0.84 per share.

In January 2015, 11,600 shares were sold out of all treasury shares held at an average weighted price per share of BGN 1.07, and in the period August – December, additional 127,589 shares were acquired at an average price of BGN 0.851 per share.

The total number of the treasury shares held as at 31 December 2016 is 1,130,985 (par value of BGN 1,130,985) (1,46 %).

9. Corporate governance – Statement on corporate governance

The **National Corporate Governance Code** came into force in October 2007.

On 26 October 2007 IHB signed a statement accepting the National Corporate Governance Code and confirming that the company would carry out its activities in compliance with the provisions of the Code. The document was published by BSE. Besides the principles set out in the Corporate Governance Code, IHB does not implement other corporate governance practices in addition to the code.

Compliance with the Code is based on the principle "comply or explain". Further information about that is disclosed as part of the Comply or Explain Report pursuant to the National Corporate Governance Code. The Comply or Explain Report is published as a spate document, together with the Management Report, and may be found at the website of the Company (www.bulgariaholding.com).

Internal control and risk management system

The internal control system of Industrial Holding Bulgaria AD comprises the following components:

Control environment – the control environment consists of the following components – organisational structure, assignment of authority and responsibility, participation of those charged with governance, commitment to competence, human resource policies and practices, management's philosophy and operating style, integrity and ethical values.
Entity's risk assessment - IHB implements a risk management system that is refined in line with the dynamic changes in the business and financial environment, in which the group companies operate. Risks originating from the group's activities may be divided into systematic and non-systematic risks. Each subsidiary is exposed to specific types of risk depending on the nature of its activity and the industry, in which it operates. There is not special risk management unit within the structure of the Holding. Each specific risk is established and managed by the persons in charge of the financial information administration and, if necessary, by management of Industrial Holding Bulgaria AD. Depending on the type of the respective risk factor and the level of its impact on a particular company, specific preventive or remedial actions are taken that are coordinated within the company itself or, if necessary, with the Holding's management.
Information system – the information system relating to the financial reporting of Industrial Holding Bulgaria AD and its subsidiaries should be considered in two aspects – as a combination of rules, processes and procedures for reporting the activity of the particular unit and as a system for reporting the subsidiaries' activities that are part of the structure of the Holding.
Control activities – To exercise effective control over the preparation of separate and consolidated financial statements of Industrial Holding Bulgaria AD is one of the priorities of the Company's management. The control, which subsidiaries exercise, may be considered in two directions – Current control on the entities' financial data and periodical control by management. The companies having implemented ERP reporting system exercise automatic control on its financial information. With respect to the other companies, physical control exercised by the persons in charge prevails.

Current monitoring of controls – The Group's internal control system is subject to constant monitoring by both each company for itself and the Holding structure as a whole. At the level of the Holding, Internal Control Department is established that monitors the activity and finances within the IHB Group and conducts current and periodical reviews of the system and processes within IHB and each Group company. The Audit Committee elected by the General Meeting of Shareholders conducts reviews of the internal control system. The checks of the Internal Audit aim to establish compliance with the internal control rules and procedures, and their adequacy to the specific business environment, in which the audited unit operates. Once a year, at a meeting of the Supervisory Board, the Management Board of the Company presents all gaps within the internal control system, which have been identified and reported on to the Management Board by the Internal Control unit. Following a decision of the Supervisory Board, specific actions are taken to improve the system.

Information pursuant to article 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

Information under letter c) - significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34/EC

During the reporting period, the Company did not receive any notifications of shares, acquired or sold, directly or through brokers, meeting the criteria stipulated in article 89, paragraph 1 of Directive 2001/34/EC with respect to changes in voting rights held.

Shareholders holding more than 10 % of the voting shares as at 31 December 2016:

			As at 31 December 2016
Shareholders holding more than 10 %, including	***Number of shareholders***	***Number of shares***	***% of the capital***
Venside Enterprises Limited		20 399 604	26.36 %
Bulls AD		13 037 921	16.84 %

Bulls AD holds 100 % of the registered capital of Venside Enterprises Limited.

Information under letter d) - the holders of any securities with special control rights and a description of those rights

There are no shareholders enjoying special control rights.

Information under letter f) - any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the company's cooperation, the financial rights attaching to securities are separated from the holding of securities

There are no restrictions on the voting rights attached to shares. As at 31 December 2016 Industrial Holding Bulgaria AD holds 1,130,985 redeemed treasury shares, on which the voting rights were suspended on the grounds of article 187a, paragraph 3 of the Commercial Act until their transfer.
In February 2017 IHB AD sold 210,000 treasury shares. At the date of approval of the annual financial statements of IHB AD for 2016, the Company held 920,985 redeemed treasury shares.

Information under letter h) - he rules governing the appointment and replacement of board members and the amendment of the articles of association

Supervisory Board

The General Meeting of Shareholders elects and dismisses the members of the Supervisory Board and resolves on their remuneration.
The mandate of the Supervisory Board is five years, as the mandate of the first Supervisory Board is three years.
The members of the Supervisory Board may be relieved from office prior to the expiry of the mandate for which they were elected.
The members of the Supervisory Board may be re-elected without limitation.
The Chairperson of the Supervisory Board concludes the management and representation contracts with the Executive Directors.

Management Board

The members of the Management Board are elected by the Supervisory Board that resolves on their remuneration and may be replaced at any time.
The members of the Management Board must meet the requirements of the law.
The mandate of the Management Board is five years, as the mandate of the first Management Board is three years.
The relationships between the Company and the members of the Management Board are arranged by means of management contracts. The contract is concluded in writing on behalf of the Company by the Chairperson of the Supervisory Board or another member of the Supervisory Board duly authorised by the Chairperson.

Provisions regarding the amendment and supplementation of the Articles of Association

The General Meeting of Shareholders adopts, amends and supplements the Articles of Association of the Company. Any decisions on amendments and supplementations of the Articles of Association are approved by a majority of 2/3 /two-thirds/ of the voting shares present at the General Meeting of Shareholders.

Information under letter i) - the powers of board members, and in particular the power to issue or buy back shares

The Company's capital may be increased by decision of the General Meeting of Shareholders through the issuance of new shares or through conversion of bonds that have been issued as convertible into shares. On the grounds of article 196 of the Commercial Act, within a term of 5 /five/ years as of 04 December 2014, the Managing Board has the right, after obtaining the approval of the Supervisory Board, to pass decisions to increase the registered capital of the Company up to BGN 120,000,000 /one hundred and twenty million Bulgarian leva/ through the issuance of new dematerialised registered shares, including to secure the rights of holders of convertible bonds to convert their bonds into shares.

The company has the right to buy back its treasury shares in compliance with the legal requirements. The decision to redeem treasury shares shall be passed by the General Meeting of Shareholders.

Information under article 100n, paragraph (8), item 5 and item 6 of POSA

Information on the composition and functioning of the administrative, management and supervisory bodies and their committees, as also a description of the policy of diversity applied towards the administrative, management and supervisory bodies of the issuer in connection with aspects, such as age, gender or education and professional experience, the objectives of the policy of diversity and the way of its implementation, are presented in item 10 of this report.

10. Information about the members of the Management Board and Supervisory Board

In 2016 no changes were made in the composition of the Management Board and Supervisory Board of IHB. The functioning of the Management Board and Supervisory Board of IHB AD is regulated by the Articles of Association of the Company and the Rules of Procedure of the Boards.

With respect to the structure of the management and supervisory boards of IHB and group companies, there are no rules, developed and approved, for quota principle based on gender, age, education and professional experience, with the aim not to limit the opportunities for carrier growth of the professional working at the IHB Group. Nevertheless, upon electing members of the management and control boards of IHB and group companies, the General Meeting of Shareholders, and respectively, the Supervisory Board of IHB, is guided by the principles of the **policy of diversity,** approved at the meeting of the Management Board and Supervisory Board of IHB; the compositions of the Supervisory Board and Management Board of IHB are an example of this respect - 43 % of members are women, there are members of different ages and with different types of education.

The policy of diversity of IHB is observed by each member of the management and supervisory bodies, employees or workers of IHB and the group companies. The implementation of the policy of diversity within IHB and the group companies aims at establishing a work environment free of bias, ensuring a climate of mutual understanding and respect, encouraging a corporate culture, which is marked by spirit of mutual respect and valuing every single person. Each member of a management and supervisory body, and a manager at IHB и the group companies, complies with the principles laid down in the policy of diversity in order to guarantee that all workers and employees receive equal treatment and are assessed objectively. All employees of IHB и the group companies are obliged to treat their colleagues, customers and suppliers, the local community and the society as whole with respect and dignity, in compliance with the principles laid down in the policy of diversity.

Information about participation in commercial companies of Board members as at 31 December 2016 as general partners holding more than 25% of the capital of another company, as well as participation in the management of other companies or cooperatives as procurators (authorized signatories), general managers or Board members:

Supervisory Board

DZH AD

Information about the person representing DZH AD in the Supervisory Board:

Elena Petkova Kircheva:

- does not participate as a general partner in any company;
- does not hold directly more than 25% of the votes in the general meeting of shareholders of any commercial company;
- is not a member of management or supervisory board of another company or corporation;
- is not a procurator (an authorized signatory) for any commercial company;
- does not participate in the management of cooperatives.

Konstantin Kuzmov Zografov

- does not participate as a general partner in any company;
- does not hold directly more than 25% of the votes in the general meeting of shareholders of any commercial company;
- Member of:
    - The Board of Directors of Privat Engineering EAD, Sofia;
    - The Board of Directors of KLVK AD, Sofia;
    - The Board of Directors of Bulgarian Ship Register EAD, Varna;
    - The Board of Directors of Maritime Holding AD, Varna;
    - The Board of Directors of Bulyard AD (in liquidation), Sofia;
    - The Board of Directors of IHB Shipdesign AD, Varna
- is not a procurator (an authorized signatory) for any commercial company;
- does not participate in the management of cooperatives.

Snejana Ilieva Hristova

- does not participate as a general partner in any company;
- holds directly more than 25% of the votes in the general meeting of shareholders of any commercial company;
    - Evropa 2007 OOD, Sofia,
    - Tuinsan EOOD, Sofia
    - Tuinsan Trading Limited, Cyprus
- Member of:
    - The Board of Directors of Stadis AD, Sofia;

-The Board of Directors of Aladis AD, Sofia;

-The Board of Directors and Executive Director of Astsela AD, Sofia;

- Manager of:
  - Alhena AD, Sofia
  - Evropa 2007 OOD, Sofia,
  - Tuainsan EOOD, Sofia,
- is not a procurator (an authorized signatory) for any commercial company;
- does not participate in the management of cooperatives.

Management Board

Daneta Angelova Zheleva - Chief Executive Officer and Chairman of the Managing Board;

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

Borislav Emilov Gavrilov

- does not participate as a general partner in any company;
- holds directly more than 25% of the votes in the general meeting of shareholders of
  - Stock Consult OOD, Sofia,
  - Sushi star EOOD, Sofia
  - Simetria OOD, Sofia
- Member of:
  - The Board of Directors of IHB Electric, Sofia;
  - The Board of Directors of KLVK AD, Sofia
  - The Board of Directors of Maritime Holding AD, Varna
- General Manager of:
  - ECO Consulting OOD, Sofia;
  - Stock Consult OOD, Sofia,
  - Sushi star EOOD, Sofia,

- Simetria OOD, Sofia,
- Avans.BG, Sofia

- is not a procurator (an authorized signatory) for any commercial company;
- does not participate in the management of cooperatives.

Emilian Emilov Abadjiev – Executive Director and Vice Chairman of the Managing Board

- does not participate as a general partner in any company;
- holds directly more than 25% of the votes in the general meeting of shareholders of
  - Commerce Consulting EEA OOD, Sofia
  - Water Synergy EOOD, Sofia
- Member of:
  - The Board of Directors and Executive Director of ZMM Bulgaria Holding AD;
  - The Board of Directors of ZMM Nova Zagora AD;
  - The Board of Directors of IHB Metal Castings AD;
  - The Board of Directors of ZMM Sliven;
  - The Board of Directors of IHB Electric AD, Sofia;
- General Manager of:
  - Commerce Consulting EEA OOD;
  - Water Synergy OOD;
- is not a procurator (an authorized signatory) for any commercial company;
- does not participate in the management of cooperatives.

Boyko Nikolov Noev

- does not participate as a general partner in any company;
- does not hold directly more than 25% of the votes in the general meeting of shareholders of any commercial company;
- is not a member of management or control body of another company;
- is not a procurator (an authorized signatory) for any commercial company;
- does not participate in the management of cooperatives.

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

The company has not signed contracts with Board members or their related parties that are beyond its usual activities or substantially deviate from the market conditions.

Remuneration paid to the members of the Management Board and Supervisory Board

Pursuant to Ordinance No 48 of the Financial Supervision Commission of 20 March 2013 on the requirements for remuneration, on a meeting held on 15 August 2013 the Supervisory Board adopted a remuneration policy of Industrial Holding Bulgaria AD, which was approved by the General Meeting of Shareholders of the Company held on 30 September 2013. Pursuant to the so-approved policy, the members of the Management Board and Supervisory Board receive only constant (fixed) remuneration to be determined by the General Meeting of Shareholders on a proposal of the Supervisory Board. The Supervisory Board, on a proposal of the Management Board may determine the payment of additional incentives to the Executive Directors of the Company.

	Remuneration paid in in 2016	
	by IHB	**by IHB subsidiaries**
Members of the Supervisory Board		
DZH AD, through representative Elena Petkova Kircheva	12,000	-
Snejana Hristova	18,000	-
Konstantin Zografov	12,000	67,200
Members of the Managing Board		
Daneta Zheleva	45,960	250,087
Emilian Abadjiev	31,200	106,800
Borislav Gavrilov	12,000	6,000
Boyko Noev	12,000	-

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

The total amount of the social security contributions paid in 2016 by IHB to the members of the Management and Supervisory Boards, including mandatory pension insurance, is BGN 5,291.

IHB or its subsidiaries does not set aside and does not accrue any other amounts for payment of pensions, other retirement benefits or any other similar benefits.

Information about shares of IHB AD held directly by members of the Management and Supervisory Boards as of 31 December 2016:

	Acquired in 2016	Transferred in 2016	Number of shares held directly	% of votes at GMS
Members of the Supervisory Board				
DZH AD	0	0	4 732 574	6.11 %
Snejana Hristova	0	0	2 056	0.003 %
Konstantin Zografov	0	0	582	0.001 %
Members of the Management Board				
Daneta Zheleva	0	0	41 044	0.053 %
Emilian Abadjiev	0	0	0	0
Borislav Gavrilov	0	0	208	0.0003 %
Boyko Noev	0	0	0	0

Information about convertible bonds of IHB AD held <u>directly</u> by members of the Management and Supervisory Boards as of 31 December 2016:

	Acquired in 2016	Transferred in 2016	Number of bonds held directly	% of the amount of the debenture issue
Members of the Supervisory Board				
DZH AD	0	0	29 253	5.85 %
Snejana Hristova	0	0	0	0
Konstantin Zografov	0	0	0	0
Members of the Management Board				
Daneta Zheleva	0	0	301	0.06 %
Emilian Abadjiev	0	0	0	0
Borislav Gavrilov	0	0	0	0
Boyko Noev	0	0	0	0

The Articles of Association of IHB AD does not provide any restrictions on the rights of the members of the Supervisory Board and Management Board to acquire shares and bonds of the Company.

As at 31 December 2016 the members of the Management and Supervisory Boards were not provided with options on securities of IHB.

Audit Committee

The GMS of IHB elected Audit Committee as a body to support the Supervisory Board in its work. Members of the Audit Committee are two independent, external for the group, experts possessing suitable education and experience – Mr Maxim Sirakov, Chairman, and Mrs Boryana Dimova, and Mrs Snejana Hristova, an independent member of the Supervisory Board with education and skills in the area of finance and sufficient administrative and management experience. The General Meeting of Shareholders of the Company, held in 2016, re-elected the members of the Audit Committee for a new 3-year mandate. The activity of the Audit Committee is governed by its Rules of Procedure. In connection with the new Independent Financial Audit Act adopted in December, the Rules of Procedure of the Audit Committee will be updated and approved by the General Meeting of Shareholders.

11. Information on pending court, administrative or arbitration proceedings concerning liabilities or receivables of IHB amounting to at least 10% of its equity

None

12. Branches

IHB AD has no branches registered.

13. Information about agreements known to the Company (including after the end of the financial year), which could result in future in changes in the relative share of the shares or bonds held by the current shareholders or bond holders.

The Company is not aware of any such agreements.

14. Management's responsibilities

Management is required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the Company as at the year end and of the financial performance and cash flows for the year then ended.

Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the annual financial statements for the year ended 31 December 2016.

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

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

13. Information about the Investor Relations Director.

The Investor Relations Director is Vladislava Petrova-Zgureva, tel. 980 71 01, e-mail: ir@bulgariqholding.com , 37A Frityof Nansen Street, floor 7, Sofia.

Emilian Abadjiev
Executive Director

29 March 2017
Sofia, Bulgaria

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

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Independent auditor's report

To the shareholders of

Industrial Holding Bulgaria AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the accompanying separate financial statements of Industrial Holding Bulgaria AD (the Company), which comprise the separate statement of financial position as at 31 December 2016, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Translation in English of the official Auditor's report issued in Bulgarian.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the* separate *financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverability of investments in and loans granted to subsidiaries in maritime transport and shipbuilding/ ship repairs sectors	
The Company's disclosures about the impairment testing of investments in and loans granted to subsidiaries are presented in Note 13 to the separate financial statements.	
The carrying value of investments in and loans granted to the subsidiaries operating in maritime transport sector and shipbuilding/ ship repairs sector aggregates to BGN 201,234 thousand as at 31 December 2016. These two sectors were influenced by the negative effects of the cyclical downturn of the respective industries such as decreased charter rates and ship-construction capacity under-utilization. The management's assessment of impairment indicators and determination of recoverable amount of investments in and loans granted to subsidiaries (at CGU level) is a complex process and involves judgement and use of estimates. Such an assessment is inherently uncertain, involving various assumptions and forecasts such as expected future cash flows from ship operations, ship repair, and production activities, discount rates and terminal growth rate. Due to the significance of the investments in and loans granted to subsidiaries in maritime transport sector and shipbuilding/ ship repairs sector (representing 85% of the total assets of the Company) and the related recoverable amount estimation uncertainty, this is considered a key audit matter.	Our audit procedures included, among others, using our internal valuation specialists to assist us in evaluating the key assumptions and methodologies applied by the Company for the determination of the recoverable amount of investments in and loans granted to subsidiaries in maritime transport and shipbuilding/ ship repairs sectors. Our evaluation was focused on the discount rate estimate for the respective sector, on the sensitivity analysis of the cash generating units' (CGUs') recoverable amounts to changes in the significant assumptions as well as on the key assumptions applied in the estimates of future cash flows for the respective CGUs (such as expected revenues, cost and expenses, expected capital expenditures, terminal growth rate etc.) by analysing their consistency with the general and industry-specific economic environment, relevant available market information, the historical financial information as well as the business plans of the Company. We further assessed the adequacy of the Company's disclosures about impairment testing of investments in and loans granted to subsidiaries in maritime transport and shipbuilding/ ship repairs sectors.

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Key audit matter	How our audit addressed the key audit matter
Related party disclosures The Company's related party disclosures are presented in Note 20 to the separate financial statements.	
The Company's activities involve significant transactions with related parties as disclosed in Note 20 to the separate financial statements. Identification of related party relationships is fundamental for the completeness and appropriateness of presentation and disclosures of related parties. It involves management judgement in the assessment of controlling, significant influence and key management personnel relationships based on contractual arrangements as well as historical analysis and patterns of specific facts and circumstances indicating such relationships. In the 2016 separate financial statements, the Company has re-assessed its related party relationships and made respective re-presentations and reclassifications of comparative information as further disclosed in Note 20 to the financial statements. Due to the significance of related party disclosures and management use of judgement in the identification of related party relationships, this is considered a key audit matter.	Our audit procedures included, among others, analysis of the contractual arrangements of the Company to identify and assess related parties relationships, corroborating the related party relationships identified by the Company's management with supporting documents and historical patterns of activities, obtaining confirmation letters for balances and transactions with related parties, as well as reviewing the loan contracts signed with related parties. We also focused on assessing the presentation and disclosure of related party transactions for consistency with the knowledge we gained for the Company's business and the results from our audit procedures in other relevant areas We further assessed the adequacy of the Company's related party disclosures, including the respective re-presentations and reclassifications of comparative information.

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Information Other than the Separate Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the management report, including the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Separate Financial Statements and Auditor's Report Thereon* section, in relation to the management report, including the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016/approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the management report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

b) Except as noted below, the management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.

The management report of the Company does not include the information on loans and guarantees of the parent, provided and/ or received outside the Group of Industrial Holding Bulgaria AD, as required under p. 8 and p. 9 of Appendix 10 to the Ordinance 2/17.09.2003 in connection to Art. 100(m), paragraph 7, p. 2 of the POSA.

c) The corporate governance statement referring to the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

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Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about entity's activities and the environment in which it operates, in our opinion, the description of the main characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

Additional Reporting on the Audit of the Separate Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related party transactions is disclosed in Note 20 to the separate financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the separate financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying separate financial statements for the year ended 31 December 2016, in all material respects, in accordance with the requirements of IAS 24 *Related Party Disclosures*. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the separate financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the separate financial statements as a whole, described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report include an evaluation as to whether the separate financial statements present the significant transactions and events in a manner that achieves true and fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the separate financial statements for the year ended 31 December 2016, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations and disclosures in accordance with the relevant requirements of IFRS as adopted by the EU. The results of our audit procedures on Company's transactions and events significant for the separate financial statements were addressed by us in the context of forming our opinion on the separate financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.

Audit Firm Ernst & Young Audit OOD:

Nikolay Garnev

Legal Representative

Daniela Petkova

Registered Auditor in charge of the audit

Sofia, Bulgaria

29 March 2017

Translation in English of the official Auditor's report issued in Bulgarian.

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

In thousands of BGN	Notes	2016	2015
Income from interest and dividends	5	6,397	15,493
Other operating income	6	58	124
		6,455	**15,617**
Personnel expenses	7	(600)	(571)
Expenses on hired services		(347)	(375)
Other operating expenses	8	(213)	(468)
Net income from operations		**5,295**	**14,203**
Finance costs	9	(2,763)	(3,869)
Finance income	10	225	-
Profit before tax		**2,757**	**10,334**
Income tax expense	11	(2)	-
Profit for the year		**2,755**	**10,334**
Earnings per share			
Basic earnings per share (in BGN)	16 (a)	0.036	0.140
Dilluted earnings per share (in BGN)	16 (a)	0.040	0.106
Other comprehensive income / (loss)			
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods			
Actuarial losses on defined benefit plans		(7)	(11)
Income tax effect	11	1	1
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(6)**	**(10)**
Other comprehensive loss for the year, net of tax		**(6)**	**(10)**
Total comprehensive income for the year, net of tax		**2,749**	**10,324**

The notes on pages 13 to 56 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 23 March 2017.

Emiliyan Abadzhiev
Executive Director

Ivan Rashkov
Chief accountant

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

Financial statements on which our auditors' report was issued dated:
EY 29-03-2017
Ernst & Young Audit OOD
EY Representative .... Registred auditor........

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

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF FINANCIAL POSITION
As of 31 December 2016

In thousands of BGN	Notes	2016	2015*
ASSETS			
Non-current assets			
Tangible and intangible non-current assets	12	315	400
Investments in subsidiaries	13	203,424	203,235
Trade and other receivables	14	33,869	35,909
Deferred tax assets	11	2	3
Total non-current assets		**237,610**	**239,547**
Current assets			
Inventories		-	3
Trade and other receivables	14	319	918
Cash and cash equivalents	15	29	125
Income tax receivable		6	33
Total current assets		**354**	**1,079**
TOTAL ASSETS		**237,964**	**240,626**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	77,400	77,400
Share premium	16	30,604	30,604
Treasury shares	16	(907)	(873)
Legal and other reserves	16	9,661	8,799
Equity component of issued convertible bonds		-	2,507
Retained earnings		63,469	61,582
Total equity		**180,227**	**180,019**
Non-current Liabilities			
Convertible bonds	17	49,976	47,450
Trade and other payables	19	810	5,973
Retirement benefit liability	18	21	37
Total non-current liabilities		**50,807**	**53,460**
Current liabilities			
Convertible bonds	17	568	567
Trade and other payables	19	6,362	6,580
Total current liabilities		**6,930**	**7,147**
Total liabilities		**57,737**	**60,607**
TOTAL EQUITY AND LIABILITIES		**237,964**	**240,626**

*Some reclassifications have been made as disclosed in Note 2.4.

The notes on pages 13 to 56 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 23 March 2017.

Emiliyan Abadzhiev
Executive Director

Ivan Rashkov
Chief accountant

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

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

EY 29 -03- 2017

Ernst & Young Audit OOD

EY Representative ... Registred auditor ...

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

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

In thousands of BGN	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of shares and other receivables		14	970
Dividends received		3,434	14,233
Granted loans repaid	20	6,195	6,761
Interest received	20	990	904
Payments for acquisition of stocks and shares		(6,506)	(11,891)
Loans granted	20	(2,612)	(36,291)
Salaries and remunerations		(591)	(559)
Foreign exchange gains		259	86
Income tax paid		-	-
Cash flows from unexercised rights of shareholders		-	15
Payments to suppliers and other payments		(455)	(592)
Net cash flow from / (used in) operating activity		**728**	**(26,364)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of tangible non-current assets		-	(37)
Sale of tangible non-current assets		13	30
Net cash from / (used in) investing activities		**13**	**(7)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Acqiusition of treasury shares		(20)	(97)
Proceeds from convertible bonds	17	-	50,000
Repayment of convertible bonds		-	(20,578)
Convertible bonds interest and fees paid		(2,500)	(2,226)
Loans and deposits received		2,295	1,100
Interest paid		(7)	(50)
Repayment of deposits		(605)	(1,667)
Net cash flows (used in) / from financing activities		**(837)**	**26,482**
(Decrease) / Increase in cash and cash equivalents		(96)	111
Cash and cash equivalents at 1 January		125	14
Cash and cash equivalents at 31 December	15	**29**	**125**

Financial statements
on which our auditors' report was
issued dated:
EY 29-03-2017
Ernst & Young Audit OOD
EY Representative:............ Registred auditor:............

The notes on pages 13 to 56 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 23 March 2017.

Emiliyan Abadzhiev
Executive Director

Ivan Rashkov
Chief accountant

ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ АД

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

INDUSTRIAL HOLDING BULGARIA AD
SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

In thousands of BGN	Notes	Share capital	Share premium	Treasury shares	Legal and other reserves	Equity component of issued convertible bonds	Retained earnings	Total equity
Balance at 1 January 2015		**67,978**	**30,604**	**(776)**	**8,718**	**-**	**51,339**	**157,863**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	10,334	**10,334**
Other comprehensive income for the year		-	-	-	-	-	(10)	**(10)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**10,324**	**10,324**
Transactions with owners reported in equity								
Transfer from retained earnings to reserves		-	-	-	81	-	(81)	**-**
Treasury shares purchase (Note 16)		-	-	(97)	-	-	-	**(97)**
Equity component of issued convertible bonds		-	-	-	-	2,507	-	**2,507**
Increase of equity (Note 16)		9,422	-	-	-	-	-	**9,422**
Total transactions with owners		**9,422**	**-**	**(97)**	**81**	**2,507**	**(81)**	**11,832**
Balance at 31 December 2015	16	**77,400**	**30,604**	**(873)**	**8,799**	**2,507**	**61,582**	**180,019**
Balance at 1 January 2016		**77,400**	**30,604**	**(873)**	**8,799**	**-**	**61,582**	**180,019**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,755	**2,755**
Other comprehensive income for the year		-	-	-	-	-	(6)	**(6)**
Total comprehensive income for the year		-	-	-	-	-	2,749	**2749**
Transactions with owners reported in equity								
Transfer from retained earnings to reserves		-	-	-	862	-	(862)	**-**
Treasury shares purchase (Note 16)		-	-	(34)	-	-	-	**(34)**
Other transfers (Note 16)		-	-	-	-	(2,507)	-	**(2,507)**
Total transactions with owners		**-**	**-**	**(34)**	**862**	**(2,507)**	**(862)**	**(34)**
Balance at 31 December 2016	16	**77,400**	**30,604**	**(907)**	**9,661**	**-**	**63,469**	**180,227**

The notes on pages 13 to 56 form an integral part of these separate financial statements. The separate financial statements were authorised for issue with a resolution of the Management Board and Supervisory Board dated 23 March 2017.

Emiliyan Abadzhiev
Executive Director

Ivan Rashkov
Chief accountant

Financial statements on which our auditors' report was issued dated:
EY 29-03-2017
Ernst & Young Audit OOD
EY Representative: .... Registred auditor: ....

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

1. Corporate information

The separate financial statements of Industrial Holding Bulgaria AD (the Company or the Holding or IHB AD) for the year ended 31 December 2016 were authorised for issue with a resolution of the Management and the Supervisory Board dated 23 March 2017.

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

The Company is registered in the Unified National Administrative register BULSTAT under identification code BG 121631219, as well as State Social Security. The Company is registered under the Value Added Tax Act. The Company's shares are traded on Bulgarian Stock Exchange, Sofia.

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

The General shareholders meeting held on 27.02.1998 decided to reorganize the activities of the Privatization Fund Bulgaria AD into a holding company and changed its name from Privatization Fund Bulgaria AD to Industrial Holding Bulgaria AD. The Company's registered capital amounts to BGN 77,400,643. It has two-tier management system comprising Supervisory and Management Boards.

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

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

The Management of the Company includes its Management Board. Those charged with governance are represented by the Audit Committee and the Supervisory Board of the Company.

2.1 Basis of preparation

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

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

Statement of compliance

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS as adopted by the EU). Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

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

In accordance with the requirements of IFRS 10 Consolidated Financial Statements and the Accountancy Act, Industrial Holding Bulgaria AD also prepares and presents consolidated financial statements. The consolidated financial statements of Industrial Holding Bulgaria AD for the year ended 31 December 2016 will be issued by 30 April 2017.

2.2 Summary of significant accounting policies

a) Foreign currency transactions

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

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

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

b) Revenue recognition

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

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

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

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

2.2. Summary of significant accounting policies (continued)

c) Taxes

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

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

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

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

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

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

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

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

2.2. Summary of significant accounting policies (continued)

c) Taxes (continued)

Deferred tax (continued)

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

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

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

Value added tax ("VAT")

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

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

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

d) Retirement benefits

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

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

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

2.2. Summary of significant accounting policies (continued)

d) Retirement benefits (continued)

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

e) Financial instruments - initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

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

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

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

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

2.2. Summary of significant accounting policies (continued)

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

Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

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

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

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

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

2.2. Summary of significant accounting policies (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

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

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

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

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

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

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

f) Investment in subsidiaries

Investments in subsidiaries are measured at cost in the separate financial statements of the Company, less any allowance for impairment (in accordance with IAS 27, paragraph 10 (a)). Investments in subsidiaries are derecognized and the net result (received consideration less carrying amount of the investment) is recognized in profit or loss for the period, when the Company loses control over the subsidiary. For more details see Note 13.

Information regarding the accounting policy for impairment of investments in subsidiaries is provided in point o) Impairment of non-financial assets.

g) Offsetting of financial instruments

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

2.2. Summary of significant accounting policies (continued)

h) Fair value measurement

The Company does not report any financial instruments, such as, derivatives and available for sale financial assets, as well as non-financial assets such as investment properties and property, plant and equipment, at fair value at each statement of financial position date. Fair values of financial instruments measured at amortised cost are disclosed in Note 23.

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

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

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

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

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

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

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

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

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

The Company's management determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for distribution in discontinued operation.
External valuers are involved for valuation of significant assets, and significant liabilities. Involvement of valuation experts is decided upon annually by the management. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

2.2. Summary of significant accounting policies (continued)

h) Fair value measurement (continued)

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

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

i) Share capital

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

j) Treasury shares

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

k) Convertible debentures

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

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

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

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

On conversion of a convertible instrument at maturity, the entity derecognises the liability component and recognises it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity.

With regards to determination and reporting of the equity component of the issued convertible bond of the Company at the reporting date, additional information is presented in Note 17.

2.2. Summary of significant accounting policies (continued)

l) Plant and equipment

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

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

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

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

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

m) Borrowing costs

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

n) Intangible assets

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

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

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

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

2.2. Summary of significant accounting policies (continued)

o) Impairment of non-financial assets

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

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

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

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

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

p) Cash and cash equivalents

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

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

2.2. Summary of significant accounting policies (continued)

q) Provisions

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

r) Earnings per share

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

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

2.3 Changes in accounting policy and disclosures

New and amended standards

The accounting policies adopted are consistent with those of the previous financial year. The following amendments to standards have been adopted by the Company as of 1 January 2016:

IAS 16 *Property, Plant and Equipment and* IAS *38 Intangible assets (Amendments): Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment or amortise intangible assets. The amendments have no effect on the financial position or performance of the Company.

IAS 19 *Employee benefits (Amended): Employee Contributions*
The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment has no effect on the financial position or performance of the Company.

2.3 Changes in accounting policy and disclosures (continued)

New and amended standards (continued)

IFRS 11 ***Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations***

The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS. The Company had no transactions in scope of this amendment.

IFRS 10, IFRS 12 ***and*** **IAS 28:** ***Investment Entities: Applying the Consolidation Exception (Amendments)***

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments have no effect on the financial position or performance of the Company.

IAS 1 ***Presentation of Financial Statements: Disclosure Initiative (Amendment)***

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. They clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The amendments affect presentation only and have no impact on the Company's financial position or performance.

IAS 27 ***Separate Financial Statements (Amended)***

The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company did not make use of this amendment.

Annual improvements to IFRSs 2010-2012 Cycle

Summary of amendments and related standards are provided below:

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

The adoption of the above amendments to standards has no effect on these financial statements.

2.3 Changes in accounting policy and disclosures (continued)
New and amended standards (continued)

Annual improvements to IFRSs 2012-2014 Cycle
Summary of amendments and related standards are provided below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarification that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan;
- IFRS 7 Financial Instruments: Disclosures – provides examples of continuing involvement in a financial asset and clarifies required disclosures in the condensed interim financial report;
- IAS 19 Employee Benefits – clarification on long-term liability discount rate determination;
- IAS 34 Interim Financial Reporting – clarification on required interim disclosures: they must either be in the interim financial statements or incorporated by cross-reference to other interim financial information (e.g., in the management report) that is available to users on the same terms as the interim financial statements and at the same time.

The adoption of the above amendments to standards has no effect on these financial statements.

2.4 Reclassifications of comparative information

The Company has made the following respective re-presentations and reclassifications of comparative information:

Reclassification of receivables from and payables to related parties

Receivables from and payables to related parties in the separate statement of financial position as of 31 December 2015 have been reclassified and presented as part of trade and other receivables and trade and other payables respectively. Detailed information is available in Note 20 Related party disclosures. Furthermore, the Company made respective re-presentations and reclassifications of its relationships with related parties based on the identified related parties, as disclosed in Note 20.

3. Significant accounting judgments, estimates, and assumptions

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

3. Significant accounting judgments, estimates, and assumptions (continued)

Judgments

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

Impairment testing of investments in subsidiaries
For the purposes of the impairment testing of investments in subsidiaries, the management has identified cash generating units (CGUs) representing the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of the CGUs has been determined using value in use calculation based on cash flow projections reflecting the specifics of the business sectors/ industries, in which the CGUs are operating and the management's latest estimates on the expected performance over the respective period. Further details are provided in Note 13.

Going Concern
As at 31 December 2016 the Company reported in its separate financial statements negative working capital at the amount of BGN 6,576 thousand (2015: BGN 6,068 thousand).

As at 31 December 2016 the Company reports current liabilities of BGN 6,185 thousand related to the purchase of shares from the capital of Odessoss PBM AD in 2014 and 2015 (Note 13, Note 19). In 2015, 2016 and in the beginning of 2017 the Company settles its liabilities related to the purchase of shares and repayment of interests on the debenture loan with ISIN BG 2100003156 and ISIN BG 2100006134 on time and Company's management believes that it will be able to successfully settle these current liabilities with funds from current activities (for example received dividends from subsidiaries,received interests from granted loans and deposits from subsidiaries).

Considering the above, which explains the excess of current liabilities over current assets as at 31 December 2016, and projections for the future development of the Holding, management concluded that the going concern assumption is appropriate for the preparation of these separate financial statements.

Identification of related parties
Identification of relationships with related parties within the meaning of IAS 24 requires different management judgments in respect of indications for control, significant influence and such involving key management personnel. For this purposes, management uses different sources of information such as contractual arrangements, historical data, analysis of specific facts and circumstances, which indicate such relationships.

In the current separate financial statements management has reassessed its relationships with related parties within the meaning of IAS 24 and has identified the categories of related parties, as disclosed in Note 20. Based on this, the Company made respective re-presentations and reclassifications of the comparative information, as disclosed in Note 2.4 and Note 20.

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

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

IFRS 9 ***Financial Instruments***
The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final version of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Company will analyze and assess the impact of the new standard on its future financial position or performance.

IFRS 15 ***Revenue from Contracts with Customers***
The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company will analyze and assess the impact of the new standard on its financial position or performance.

IFRS 15 ***Revenue from Contracts with Customers (Clarifications)***
The clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These clarifications have not yet been endorsed by the EU. The Company will analyze and assess the impact of these clarifications on its financial position or performance.

IFRS 16 ***Leases***
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Company will analyze and assess the impact of the new standard on its financial position or performance.

Amendments in* IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business or a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Company

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

IAS 12 ***Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses***
The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses
in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Company.

IAS 7 ***Statement of Cash Flows (Amendments): Disclosure Initiative***
The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments have not yet been endorsed by the EU. The Company is in the process of assessing the impact of these amendments on its disclosures.

IFRS 2 ***Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions***
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Company.

IFRIC 22 ***Foreign Currency Transactions and Advance Consideration***
The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new interpretation on its financial position or performance.

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

IAS 40 *Investment Property (Amendments): Transfers of Investment Property*

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify transfers of property to, or from, investment property when there is a change in the use of such property which is supported by evidence. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Company.

Annual Improvements to IFRSs 2014-2016 Cycle

In the 2014-2016 annual improvements cycle, the IASB issued amendments to three standards which are effective for annual periods beginning on or after 1 January 2017 / 1 January 2018. Summary of amendments and related standards are provided below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - deletion of short-term exemptions for first-time adopters (effective for annual periods beginning on or after 1 January 2018);
- IFRS 12 Disclosure of Interests in Other Entities - clarification of the scope of the Standard (effective for annual periods beginning on or after 1 January 2017), and
- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value (effective for annual periods beginning on or after 1 January 2018).

The improvements to IFRSs 2014 – 2016 Cycle have not yet been endorsed by EU. The Company is in the process of assessing the impact of the amendments on its financial statements.

5. Income from interest and dividends

In thousands of BGN	Notes	2016	2015
Dividend income	20.2	4,814	14,233
Interest income	20.2	1,583	1,260
		6,397	**15,493**

The reported dividend income of BGN 4,814 thousand (2015: BGN 14,233 thousand) comprises dividends distributed by ZMM Bulgaria Holding AD – BGN 2,628 thousand (2015: BGN 3,802 thousand), KRZ Port Burgas AD – BGN 1,405 thousand (2015: nil), Rekolta 2011 EAD – BGN 502 thousand (2015: nil), Maryteam Holding AD- BGN 192 thousand (2015: BGN 384 thousand), IHB ShipDesign AD - BGN 87 thousand (2015: BGN 35 thousand) and Private Engineering EAD- BGN 0 (2015: BGN 10,012 thousand).

Interest income relates to interest-bearing loan receivables from subsidiaries at the amount of BGN 1,583 thousand (2015: BGN 1,251 thousand), accrued interest income relating to commercial contracts of nil (2015: BGN 5 thousand) and interests on deposit and current bank accounts at the amount of nil (2015: BGN 4 thousand).

During 2016 and 2015 no gains or losses from operations with investments were realized.

6. Other operating income

In thousands of BGN	Notes	2016	2015
Derecognised liabilities on shareholders' rights sold		48	6
Revenue from services rendered	20.2	10	36
Gains from sale of tangible non-current assets	20.2	-	42
Other income		-	40
		58	**124**

Revenue from services rendered relates to fees for financial security provided to Group companies.

6. Other operating income (continued)

The liabilities on rights sold to shareholders resulted from the increase in share capital. Industrial Holding Bulgaria AD discontinued the payments of proceeds from the auction of unexercised rights in connection with the capital increase due to expiration of the period of the obligation to pay the amounts.

In 2016 are written off BGN 48 thousands unexercised rights in connection with the capital increase in 2011.

7. Personnel expenses

In thousands of BGN	**2016**	**2015**
Salaries	(537)	(507)
Social security expenses and other social payments	(63)	(64)
	(600)	**(571)**

8. Other operating expenses

In thousands of BGN	**2016**	**2015**
Depreciation and amortization (Note 12)	(85)	(124)
Impairment of investments (Note 13)	(34)	-
Expenses for materials	(17)	(22)
Other operating expenses	(77)	(322)
	(213)	**(468)**

As at 31.12.2016, the Company has performed review of the impairment indications and has concluded that there are indications of impairment of some of its investments. Impairment charges reported in 2016 relate to investment in the subsidiaries Bulyard AD in liquidation- BGN 34 thousand (Note 13).

The amounts charged for the services provided by the Company's registered auditor, are as follows: BGN 26 thousand for 2016 (2015: BGN 45 thousand). There are no services received, which are not related to the audit, made by the registered auditor of the company for 2016. The amount in 2015 includes BGN 19 thousand for other non-audit services. These amounts are disclosed as part of the costs of hired services.

9. Finance costs

In thousands of BGN	Notes	2016	2015
Debenture loan interest expenses ISIN BG 2100003156 (2015: Debenture loan ISIN BG 2100003156 and ISIN BG 2100006134)		(2,502)	(2,392)
- Incl. related party expense	*20.2*	*(1,803)*	*(1,663)*
Foreign exchange losses		-	(1,064)
Interest expenses on deposits and loans from related parties, interests expenses on contracts for purchase of shares, bank accounts etc.		(238)	(371)
- Incl. related party expense	*20.2*	*(27)*	*(34)*
Other finance expenses, related to debenture loans		(18)	(33)
Other finance expenses		(5)	(9)
Finance costs		**(2,763)**	**(3,869)**

Foreing exchange losses in 2015 are due to revaluation of payables in USD in relation to deferred payment of acquired shares in Bulyard AD and Odessoss PBM AD. Interest expenses for 2015 and 2016 include interests on long-term contracts for purchase of shares in Bulyard AD and Odesos PBM AD. In relation to management of currency risk and in view of Company's exposition in USD during the year management of Company agrred forward contracts for hedge of fluctuations of USD/EUR rate and management of cash flows. As of 31 December 2016, there are no open positions for such forward contracts.

10. Financial Income

In thousands of BGN	2016	2015
Foreign exchange gains	224	-
Other finance income	1	-
Finance income	**225**	**-**

11. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

In thousands of BGN	**2016**	**2015**
Current tax expense	-	-
Deferred tax, relating to origination and reversal of temporary differences	(2)	-
Income tax expense reported in profit or loss	**(2)**	**-**

Current tax expense comprises income tax accrued at 10% for 2016 (2015: 10%). In 2017, the applicable tax rate remains unchanged.

Reconciliation between tax expense and the accounting profit multiplied by the Company's tax rate for the years ended 31 December 2016 and 2015 is as follows:

In thousands of BGN	**2016**	**2015**
Profit before tax	**2,757**	**10,334**
Income tax at the Company's statutory tax rate of 10% for 2016 (2015: 10%)	(276)	(1,033)
Impairment of investment in subsidiary, for which no deferred tax asset is recognised	(3)	-
Dividend revenue exempted from tax	481	1,423
Non-deductible expenses for tax purposes	(2)	(2)
Tax loss for which no deferred tax asset is recognized	(202)	(388)
Income tax expense at an effective tax rate of 0% (2015: 0%)	**(2)**	**-**

Deffered tax asset	Statement of financial position		Profit and loss for the period		Other comprehensive income	
	2016	2015	2016	2015	2016	2015
Retirement benefits liability	2	3	(2)	-	1	1
Deffered tax expense			(2)	-	1	1
Deffered tax asset, net	2	3				

11. Income tax (continued)

The Company has incurred tax losses as follows:

Tax period	Period for deduction of tax losses	2016	2015
BGN thousand			
2015	by 2020	3,885	3,885
2016	by 2021	2,013	-
Total tax losses for deduction		5,898	3,885
Statutory tax rate		10%	10%
Recognized deferred tax asset		-	-
Not recognized deferred tax asset		**590**	**388**

Tax losses can be carried forward and set off against future taxable profits of the Company. Under applicable tax law in Bulgaria, the period for transfer and deduction of tax losses is five years.

12. Tangible and intangible non-current assets

In thousands of BGN	Computers and equipment	Vehicles	Fixtures and fittings and others	Total
Cost				
Balance at 1 January 2015	**119**	**433**	**416**	**968**
Additions	-	38	3	**41**
Disposals	(12)	(39)	(16)	**(67)**
Balance at 31 December 2015	**107**	**432**	**403**	**942**
Balance at 1 January 2016	**107**	**432**	**403**	**942**
Additions	-	-	-	-
Disposals	(62)	(143)	(36)	**(241)**
Balance at 31 December 2016	**45**	**289**	**367**	**701**
Depreciation and impairment losses				
Balance at 1 January 2015	**104**	**187**	**200**	**491**
Depreciation for the year	11	36	76	**123**
Depreciation of fixed assets written off	(12)	(39)	(16)	**(67)**
Balance at 31 December 2015	**103**	**184**	**260**	**547**
Balance at 1 January 2016	**103**	**184**	**260**	**547**
Depreciation for the year	4	36	44	**84**
Depreciation of fixed assets written off	(62)	(143)	(36)	**(241)**
Balance at 31 December 2016	**45**	**77**	**268**	**390**
Carrying amounts				
Balance at 1 January 2015	**15**	**246**	**216**	**477**
Balance at 31 December 2015	**4**	**248**	**143**	**395**
Balance at 31 December 2016	-	**212**	**99**	**311**

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

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

Intangible assets

The intangible assets of the Company are insignificant; therefore, a detailed note for their movement during the year has not been prepared. The carrying amount of the intangible assets as at 31 December 2016 is BGN 4 thousand (2015: BGN 5 thousand). The accrued amortization for the year ended 31 December 2016 is BGN 1 thousand (2015: BGN 1 thousand).

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

13. Investments in subsidiaries

The Company has the following investments in subsidiaries at 31 December 2016 and 31 December 2015:

In thousands of BGN		**2016**		**2015**	
	Country of incorporation	**Cost of investment**	**Effective percentage of control**	**Cost of investment**	**Effective percentage of control**
ZMM Bulgaria Holding AD	Bulgaria	7,885	99.998	7,885	99.998
Privat Engineering EAD	Bulgaria	57,220	100.000	56,992	99.790
KRZ Port Burgas AD	Bulgaria	4,774	99.640	4,774	99.640
Bulyard AD	Bulgaria	825	98.000	859	98.000
Maritime Holding AD	Bulgaria	400	61.000	400	61.000
International Industrial Holding Bulgaria AG	Switzerland	130	100.000	130	100.000
KLVK AD	Bulgaria	46,096	68.000	46,096	68.000
Rekolta 2011 EAD (terminated)	Bulgaria	-	-	2,300	100.000
IHB Shipdesign AD	Bulgaria	70	70.00	75	75.000
Bulyard Shipbuilding Industry AD	Bulgaria	63,371	95.890	61,071	98.590
Odessoss PBM AD	Bulgaria	22,653	90.000	22,653	90.000
		203,424		**203,235**	

In March 2016 the entity has acquired 22,503 shares (0.21% of Privat Engineering's AD share capital) for the amount of BGN 228 thousand and it becomes the 100% owner of the share capital of its subsidiary, Privat Engineering EAD.
Rekolta 2011 EAD has ceased its activity without liquidation as it has merged with Bulyard Shipbuilding industry AD which has become the sole assignee to the activity and assets of Rekolta 2011 EAD. At the same time and in the same way, Bulkari AD (partial subsidiary of Industrial Holding Bulgaria AD) has merged with Bulyard ShipBuilding industry AD. The merger and termination of Rekolta 2011 AD and Bulkari AD was entered into the Trade register on 25.08.2016. Since the merger the share capital of Bulyard ShipBuilding industry AD has been increased by the issuance of 10,048,759 ordinary shares with voting rights, out of which 8,167,873 are acquired by Industrial Holding Bulgaria AD. As a result of the merger, the investment in Rekolta 2011 EAD decreases with BGN 2,300 thousand, and respectively the investment in Bulyard Shipbuilding industry AD increases with the same amount. The purpose of the merger is optimization of the activities within the Group. Based on the fact that the transaction is between entities under common control (there is no change in the control and the ultimate parent) and the merger transaction has no substance for IHB AD, the entity did not recognize any effect from it in the profit and loss for the period.

13. Investments in subsidiaries (continued)

The Company owns also 2 shares in ZMM Bulgaria Holding AD's subsidiary IHB Metalcasting AD. As of March 24, 2016 official trade name of Leyarmach AD was changed to IHB Metal Kastings AD.
In November 2016 the Company sold 5 thousands shares representing 5% of the capital of IHB Shipdesign AD.

On December 21, 2016, in connection with the decision the General Meeting of the Board of Directors, in Commercial Regiser is disclosed the termination of the activity of "Bulyard" AD (in liquidation), Sofia, a subsidiary of "Industrial Holding Bulgaria", and starting liquidation procedure. The time limit for liquidation of the company is six months from 21.12.2016.

In 2015, Industrial Holding Bulgaria AD increased its investment in its subsidiary Odesos PBM AD, Varna. As a result of the concluded deal on 01.12.2015, Industrial Holding Bulgaria AD acquired 1,584,000 (one million five hundred and eighty-four thousand) ordinary shares with voting rights with nominal value of BGN 1 (one) each, representing 30% of capital of Odesos PBM AD. The value of the deal is EUR 3,000 thousand (BGN 5,868 thousand.), as at the approval of these financial statements the liability has been fully repaid. As a result the investment of Industrial Holding Bulgaria AD reached 90% of the capital.

Impairment testing

As of 31 December 2016, the management of the Company performed a review of impairment indicators of its investments and and has concluded that there are indicators of impairment of certain of its investments in subsidiaries (as outlined below). The cost of these investments - Privat Engineering EAD, KLVK AD, Bulyard shipbuilding industry AD and Bulyard AD (in liquidation) are BGN 57,220 thousand, BGN 46,096 thousand, BGN 63,371 thousand and BGN 825 thousand respectively as of 31 December 2016. In 2016 impairment loss has been recognized in the investments in Bulyard AD at the amount of BGN 34 thousand (In 2015 no impairment loss has been recognized in the investments mentioned above).

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

- Privat Engineering EAD (maritime transport sector/ industry)
- KLVK AD (maritime transport sector/ industry)
- Shipbuilding industry (shipbuilding/ship repairs and others sector/ industry)

The management of Industrial Holding Bulgaria AD has performed the impairment testing in the investments in Bulyard AD and Bulyard shipbuilding industry AD by identifying one CGU – CGU Shipbuilding industry. This CGU belongs to business sector shipbuilding/ship repairs and others.

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

	Carrying amount of the investment, allocated to each CGU	
In thousands of BGN	**2016**	**2015**
Privat Engineering EAD	57,220	56,992
KLVK AD	46,096	46,096
CGU Shipbuilding industry	64,196	61,930

13. Investments in subsidiaries (continued)

Impairment testing (continued)

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

	Carrying amount of the loans granted, allocated to each CGU	
In thousands of BGN	**2016**	**2015**
Privat Engineering EAD	4,480	4,859
KLVK AD	5,520	7,705
CGU Shipbuilding industry	23,722	22,815

The carrying amount of Net investment in subsidiaries for which the Company has preformed an impairment assessment in 2016 amounts to BGN 201,234 thousand, and in 2015 – BGN 200,397 thousand.

The management performed an impairment assessment of the investments in the three Cash Generating Units (which are described above) as of 31 December 2016. This assessment was triggered by the following factors, which affect equally all three CGUs:

- The negative effects of the economic downturn on the world economy and trade and the respective effects on the business sectors of maritime transport, ship building and ship repair and especially:
  - The decrease in the charter rates applicable for the ships, owned by the subsidiaries of Industrial Holding Bulgaria AD. In addition to it, the worldwide freight market achieved extremely low levels in 2016.
  - The worsening conditions in construction and transport sector directly affect the utilization of the capacity of Bulyard Shipbuilding Industry AD (direct subsidiary).
  - Decrease, although to a smaller extent, in the expenses for repair and maintenance of the ships.
- The increased competition in the sectors of maritime transport, shipbuilding and ship repair.

The recoverable amount of the three CGUs has been determined using value in use calculation based on cash flow projections covering the remaining useful life of the vessels taken out from a total 25-year period for Privat Engineering EAD CGU and KLVK AD CGU and 5-year period for Shipbuilding industry CGU. The projected cash flows of the entities for CGU Privat Engineering EAD and CGU KLVK AD are based on budget 2017-2018 approved by the management and thereafter - based on adjusted industry average annual time-charter rates for the respective ship type for the period 2007-2016, reduced by the applicable for the industry % variable expenses on time-charters. The projected cash flows of CGU Shipbuilding industry are based on budget 2017-2019 approved by the management and extrapolated for the aboved mentioned periods. These projections reflect the specifics of the business sector/ industry of CGU-maritime transport and CGU-shipbuilding and repair as well as the latest management estimates on the expected performance over the projected period. The value of the CGUs after the explicit forecast period is based on terminal value estimates.

The recoverable amount of CGU Privat Engineering EAD and CGU KLVK AD are higher than the amounts of the investments in the respective entities. As a result the Company has not recognized impairment loss in its investments in Privat Engineering EAD, KLVK AD,

The recoverable amount of CGU Shipbuilding industry is higher than the aggregated carrying amount of the investments in Bulyard AD-in liqudation and Bulyard shipbuilding industry AD. Impairment losses at the level of investment in the company Bulyard AD - in liquidation, amounting to BGN 34 thousand are due to the excess of the carrying value of the investment in Bulyard AD – in liquidation over the net assets of this entity which will be distributed during the liquidation.

13. Investments in subsidiaries (continued)

Key Assumptions used in the value in use calculations

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

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

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

Discount rate

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

- 7.36% of CGU Privat Engineering EAD and CGU KLVK AD (2015:7.44%);
- 10.12% (2015: 10.21%) of CGU Shipbuilding industry;

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

Terminal value

When determining the terminal value in the impairment tested described above, the management has used a terminal growth rate of 2.5% (2015: 2.5%), which according to the management reflects the projected levels of inflation globally (and in Bulgaria in particular).

13. Investments in subsidiaries (continued)

Impairment testing (continued)

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

In thousands of BGN	**Impairment loss of investment in CGU Shipbuilding industry (total amount)**	
	2016	**2015**
Discount rate		
Increase of 0.5%	-	(3,928)
Decrease of 0.5%	-	-
Revenue		
Increase of 0.5%	-	-
Decrease of 0.5%	-	(1,238)

In thousands of BGN	**Impairment loss of investment in CGU Privat Engineering EAD**	**Impairment loss of investment in CGU KLVK AD**
2016		
Discount rate		
Increase of 0.5%	none	none
Decrease of 0.5%	none	none
Revenue		
Increase of 0.5%	none	none
Decrease of 0.5%	none	none

In thousands of BGN	**Impairment loss of investment in CGU Privat Engineering EAD**	**Impairment loss of investment in CGU KLVK AD**
2015		
Discount rate		
Increase of 0.5%	none	none
Decrease of 0.5%	none	none
Revenue		
Increase of 0.5%	none	none
Decrease of 0.5%	none	none

14. Trade and other receivables

In thousands of BGN	Notes	2016	2015
Loans granted to related parties	20.1	34,056	36,771
Related parties receivables	20.1	119	17
Receivables from disposal of investment		5	14
Trade receivables		-	14
Prepayments		8	11
		34,188	**36,827**
Short term		33,869	35,909
Long term		319	918

15. Cash and cash equivalents

In thousands of BGN	Notes	2016	2015
Cash in hand		2	3
Cash at banks – related parties	20.1	24	116
Cash at banks - others		3	6
		29	**125**

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

16. Issued capital and reserves

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

In thousands of BGN	2016	2015
77,400,643 ordinary shares with a nominal of BGN 1 each	77,400	77,400
	77,400	**77,400**

The share capital of the Company comprises 77,400,643 personal non-cash voting shares with par value of BGN 1 each which are quoted on the Bulgarian Stock Exchange. The share capital is recorded at nominal value and is fully paid. There are no preference shares and shares payable to bearer.

16. Issued capital and reserves (continued)

Shareholders in Industrial Holding Bulgaria AD as at 31 December 2016 who hold over a 5% of the share capital of the Company:

Shareholder	**Number of shares as at 31.12.2016**	**2016**	**2015**
Venside Enterprises	20,399,604	26.36%	26.36%
BULLS AD	13,037,921	16.84%	16.84%
MUPF Allianz Bulgaria AD	5,015,666	6.48%	6.78%
PPF Allianz Bulgaria AD	5,032,314	6.50%	6.72%
DZH AD	4,732,574	6.11%	6.11%
Other	29,182,564	37.71%	37.19%
	77,400,643	**100.00%**	**100.00%**

Reconciliation of issued shares:	**Number of shares**	**Amount**
In thousands of BGN		
Ordinary shares issued and fully paid		
At 1 January 2015	67,978,543	67,978
Issued new 9,422,100 ordinary, personal non-cash freely transferable shares as a result from conversion of 94,221 personal non-cash convertible bonds (16 of April 2015)	9,422,100	9,422
At 31 December 2015	**77,400,643**	**77,400**
At 31 December 2016	**77,400,643**	**77,400**

Reconciliation of the share premium	**Amount**
In thousands of BGN	
At 1 January 2015	30,604
At 31 December 2015	**30,604**
At 31 December 2016	**30,604**

Legal and other reserves

Legal reserves are set aside by joint-stock companies like Industrial Holding Bulgaria AD from retained earnings in accordance with the provisions of article 246 of the Commercial Act. They are set aside until one-tenth or more of the capital is reached. At 31 December 2016 the legal and other reserves are BGN 9,661 thousand (2015: BGN 8,799 thousand).

Treasury shares

In relation to the decision reached at the General Meeting of the Shareholders for treasury shares transactions, the Managing Board of Industrial Holding Bulgaria AD decided that the maximum number of shares that will be repurchsased each year for a four-year period of time is 3% of the registered capital of the Company, which as at 31.12.2012 is 67,978,543 shares, namely 2,039,356 shares each year.

In 2016, the General Meeting of Shareholders has decided to extend the deadline for the repurchase of own shares by another 1 year, ie until the fifth year from the date of the decision in already identified other parameters (maximum, minimum and maximum price, etc.).The chosen investment intermediary is Alianz Bank Bulgaria AD.

For the period 1.01.2013- 31.12.2013 a total of 967,141 shares were repurchased at an average price of BGN 0.794 per share and acquisition costs of BGN 3 thousand. In 2014 a total of 6,125 shares were repurchased at an average price of BGN 0.84 per share.

16. Issued capital and reserves (continued)

Treasury shares (continued)

In January 2015 11,600 shares were sold at price per share of BGN 1.07, and for the period August – December 2015 127,589 shares were additionaly purchased at an average price of BGN 0.851 per share. For the period 1.01.2016- 31.12.2016 a total of 41,730 shares were additionally purchased at an average price of BGN 0.816 per share. The total number of treasury shares as at 31.12.2016 is 1,130,985 shares.

Other equity reserves

Other transfers are related to the equity component of issued convertible bonds, as disclosed in Note 17.

16 (a). Earnings per share

Basic earnings per share are calculated by dividing the financial result for the year by the weighted average number of ordinary shares outstanding for the year (after deducting the average number of treasury shares held).

The calculation of basic earnings per share as of 31 December 2016 is based on the profit attributable to ordinary shareholders of BGN 2,755 thousand (2015: BGN 10,334 thousand) and a weighted average number of ordinary shares available for the year ended 31 December 2016 of 76,283 thousand (31 December 2015: 73,694 thousand).

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

In thousands of BGN	**2016**	**2015**
Profit for the year	2,755	10,334
Profit attributable to ordinary equity holders of the parent	**2,755**	**10,334**
Interest on convertible bond, net of tax	2,268	2,183
Profit attributable to ordinary holders of the parent adjusted for the effect of dilution	**5,023**	**12,517**

In thousand of shares	**2016**	**2015**
Ordinary shares issued at 1 January	76,311	67,005
Treasury shares transactions	(42)	(116)
Issue of new shares	-	9,422
Number of ordinary shares at the end of the respective year	**76,269**	**76,311**
Weighted average number of shares at 31 December	76,283	73,694

In thousand of shares	**2016**	**2015**
Weighted average number of shares at 31 December	76,283	73,694
Effect of dilution of convertible bond	50,000	44,392
Weighted average number of ordinary shares adjusted for the effect of dilution	**126,283**	**118,086**

Basic earnings per share (BGN)	0.036	0.140
Diluted earning per share (BGN)	0.040	0.106

17. Debenture loan

In thousands of BGN	**Notes**	**2016**	**2015**
Debenture loan		50,000	50,000
Transaction costs		(24)	(43)
Interest charged		568	567
		50,544	**50,524**
of which long-term		49,976	47,450
of which short-term		568	567
of which Equity component (Note 16)		-	2,507
of which related parties	*20.1*	*36,154*	*36,049*

To align the interest calculation of the debenture loan with the actual interest cash flows, the Company has transferred the equity component of the issued convertible debenture loan to the non-current liabilities. The impact of the transfer is not considered material for the separate financial statements as a whole.

On 20 October 2014 the Supervisory Board of Industrial Holding Bulgaria AD decided to convene an extraordinary general meeting of the shareholders of Industrial Holding Bulgaria AD, which took place on 04 December 2014 with the following agenda:

I. The issue of the conditions of an initial public offering of dematerialized convertible freely transferable and unsecured bonds with the following parameters:

- Total nominal and issue price of the bond issue: to 50,000,000 / fifty million / BGN;
- Nominal value of one bond: 100 / hundred / BGN;
- Issue price of a bond: 100 / hundred / BGN;
- Number of bonds: 500,000;
- Minimal amount at which the loan is deemed as concluded: the loan is deemed as concluded upon subscription and payment of bonds with a total nominal value of not less than 30,000,000 /thirty million/BGN;
- Term (maturity) of the debenture loan: 3 / three / years (36 months);
- Interest rate: 5% on an annual basis;
- Period of interest payment: 6 - month;
- Procedure for conversion of bonds into shares (conversion procedure): conversion - on the maturity of the bonds; debenture holders will be entitled, under the terms of the bond issue and prospectus for the offering of convertible bonds, instead of repayment of the bonds held to replace them (convert) a number of shares corresponding to the actual time of the exchange conversion ratio.
- Purpose of the debenture loan: Funds from the issue will be used to reimburse the debenture loan under a previous issue of convertible bonds ISIN BG 2100006134, issued by "Industrial Holding Bulgaria", refinancing of investments in "KRZ Port Bourgas" and other projects of "Industrial Holding Bulgaria "AD and its subsidiaries.

With resolution № 106-E dated 18.02.2015 and resolution № 127-E dated 25.02.2015 Financial Supervision Commission approved the prospect for initial public offering by Industrial holding Bulgaria AD of emission amounting to 500,000 personal non-cash freely transferable unsecured convertible bonds with par and issue value of BGN 100 each, with fixed interest of 5 % on annual basis, which is payable each six months and term of the debenture loan 36 months.

17. Debenture loan (continued)

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

- Closing date of the public offering – 09.04.2015;
- Total number issued rights – 67,978,543;
- Total number of convertible bonds offered for subscription - 500,000;
- Number of subscribed and paid convertible bonds – 499,996;
- Amount received from the subscribed and paid convertible bonds in the special account in Allianz Bank Bulgaria AD – BGN 49,999,600.00.

The convertible bond with ISIN code BG 2100003156 requires compliance with certain financial ratios until the maturity of the bond issue. The issuer has to maintain the ratio of liabilities / assets not higher than 65%, coverage of interest expenses ratio not lower than 1.2 and the ratio of Interest-bearing debt / assets not higher than 50%. These financial indicators are calculated and reported on the basis of separate financial data for Industrial Holding Bulgaria at the end of every quarter. If Industrial Holding Bulgaria violates the specified financial ratios the Company must take actions within six months to bring the ratios in accordance with the set covenants.

As at 31.12.2016 the issuer is in compliance with the financial covenants.

18. Retirement benefit liability

The estimated liability for retirement benefits in accordance with the requirements of the Labor Code and IAS 19 as of 31.12.2016 is BGN 21 thousand (2015: BGN 37 thousand).
There are no reasonably possible changes in the key assumptions that could have a significant impact on the retirement benefit liability as of year-end.
The average maturity of the retirement benefit is approximately 20.5 years (2015: 19 years).

19. Trade and other payables

In thousands of BGN	**Notes**	**2016**	**2015**
Payables to suppliers		6,188	11,957
Payables to related parties	20.1	943	504
Payables for shareholders' rights sold		21	69
Payables to social security institutions		10	10
Others		10	13
		7,172	**12,553**
Short – term		6,362	6,580
Long – term		810	5,973

Liabilities on sold shareholders' rights at 31.12.2016 at the amount of BGN 21 thousand (31.12.2015: BGN 69 thousand) have arisen as a result of the capital increase of the Company in the period 2011 - 2015, issuance of bond with ISIN code BG 2100018113 whose procedure was successfully completed on 17 October 2011, the issuance of bond with ISIN code BG2100006134 in 2013 and the issuance of bond with ISIN code BG2100003156 in 2015. The repayment of these is still in progress.

Payables to suppliers in the amount of BGN 6,185 thousand (2015: BGN 11,950 thousand) is related to the purchase of shares in the capital of Odessoss PBM AD in 2014 and additional purchased shares in January 2015, which is to be paid in installments by the end of 2017. Long-term part is nil (2015: BGN 5,973 thousand) and short – term part is of the amount of BGN 6,185 thousand (2015: BGN 5,977 thousand), which includes interest expense of BGN 47 thousand (2015: BGN 93 thousand).

20. Related parties disclosures

The Company concider that it is related party in compliance with IAS 24 requirements with the following:
I. Parties exercising control within the meaning of IAS 24:

- Bulls AD, a company which owns directly and indirectly through a subsidiary 43.20% in Industrial Holding Bulgaria AD, and which in view of the dispersed shareholding structure of Industrial Holding Bulgaria AD as former privatization fund and the present shareholders at the General Meetings of Shareholders (so called "quorum") over the past two years have allowed the exercise of majority vote and de facto control in the General Meeting of Shareholders of Industrial Holding Bulgaria AD.
- Dimitar Zhelev controlling Bulls AD and husband of the Chief Executive Officer of Industrial Holding Bulgaria AD Daneta Zheleva.

The judgment for exercise of control as described above is reassessed on a regular basis.
For the purposes of preparation of the 2016 financial statements, management considers that the above judgments are relevant for the comparative period as well (year ended 31/12/2015) and as a result, comparative disclosures of information regarding related parties have been reclassified.

II. Key management personnel, including the Management and Supervisory Board of the company.

III Entities under common control of the parties exercising control within the meaning of IAS 24 (under point I)

IV. Entities over which the parties exercising control within the meaning of IAS 24 (under point I) have a significant influence or are members of their key management personnel.

V. Subsidiaries

Direct Subsidiaries
The subsidiaries of Industrial Holding Bulgaria AD at 31 December 2016 and 31 December 2015 are presented in Note 13.

Indirect Subsidiaries
IHB Electric AD, IHB Metal Casting AD, and Bulkari EAD (terminated) are indirect subsidiaries of Industrial Holding Bulgaria AD because they are subsidiaries of the direct subsidiary of Industrial Holding Bulgaria AD – ZMM Bulgaria Holding AD. IHB Shipping Co EAD, Emona Ltd., Tirista Ltd. and Karvuna Ltd. are indirect subsidiaries because they are subsidiaries of of the subsidiary of Industrial Holding Bulgaria AD – Privat Engineering EAD. Bulport Logistika AD is an indirect subsidiary because it is a subsidiary of the subsidiary of Industrial Holding Bulgaria AD – KLVK AD. Bulgarian Register of Shipping AD is an indirect subsidiary because it is a subsidiary of the subsidiary of Industrial Holding Bulgaria AD – Maritime Holding AD

20.1. Related parties balances

Loans granted to related parties

In thousands of BGN	**Notes**	**2016**	**2015**
Subsidiaries	14	34,056	36,771
		34,056	**36,771**
incl. short-term		187	862
incl. long-term		33,869	35,909
incl. principal		33,837	36,044
incl. intrest		219	727

20. Related parties disclosures (continued)
20.1. Related parties balances (continued)

For the period January – December 2016 Bulyard Shipbuilding Industry AD has repaid BGN 250 thousand principal and BGN 693 thousand interests to Industrial Holding Bulgaria AD. For the same period Industrial Holding Bulgaria AD has granted loans to Bulyard Shipbuilding Industry AD at the amount of BGN 587 thousand. The interest accrued is at the amount of BGN 1,008 thousand. As a result of the merger of Rekolta 2011 EAD to Bulyard Shipbuilding Industry AD, a loan granted from IHB AD at the amount of BGN 603 thousand is transferred to Bulyard Shipbuilding Industry AD. The payables of Bulyard Shipbuilding Industry as at 31 December 2016 is at the amount of BGN 23,722 thousand. In connection with the loans promissory notes are issued. The loans granted are with maturity date December 2018 and fixed interest rate

The total amount of loans granted to KLVK AD as at 31.12.2016 is BGN 5,283 thousand. For the period January – December a loan of BGN 518 thousand is granted to KVLK AD with maturity date Decmber 2018 and fixed intrest rate. In this period KVLK AD has repaid BGN 4,364 thousand principal and BGN 105 interests. In 2016 interests at the amount of BGN 231 thousand was capitalized. On 25.08.2016, Bulyard Shipbuilding Industry AD transferred its receivable from KLVK AD to Industrial Holding Bulgaria AD amounting to BGN 229 thousand. On 10.01.2016, Privat engineering Ltd. transferred its receivable from KLVK AD to Industrial Holding Bulgaria AD amounting to BGN 1,000 thousand. In connection with the loans promissory notes are issued.

For the period January – December a loan of BGN 136 thousand is granted to Privat Engineering EAD by IHB AD with maturity date Decmber 2018 and fixed intrest rate. In this period the company has repaid BGN 496 thousand principal and BGN 50 thousand interests. The total amount of payables (together with interest accrued but not paid) of Privat Engineering EAD as at 31 December 2016 is BGN 128 thousand.

The closing balance of the loan granted to IHB Electric AD as at 31.12.2016 is BGN 334 thousand. For the period January – December a loan of BGN 222 thousand is granted to IHB Electric AD. In this period IHB Electric AD has repaid BGN 684 thousand principal and BGN 21 interests.The loan granted is with maturity date October 2018 and fixed interest rate.

The closing balance of the loan granted to Bulport Logistika AD as at 31.12.2016 is BGN 237 thousand. In this period the company has repaid BGN 140 thousand principal and BGN 7 thousand interests. On 25.08.2016, Bulyard Shipbuilding Industry AD transferred its receivable from Bulport Logistika AD to Industrial Holding Bulgaria AD amounting to BGN 236 thousand

In 2016 Industrial Holding Bulgaria AD granted loans to its indirect subsidiaries Tirista Ltd, Emona Ltd and Karvuna Ltd at the amount of BGN 1,149 thousand. The loan granted is with maturity date 2018 and fixed interest rate. For the same period Tirista Ltd, Emona Ltd and Karvuna Ltd have repaid BGN 261 thousand principal and BGN 115 thousand interest. The total amount of the payables from the three indirect subsidiaries to Industrial holding Bulgaria AD as at 31.12.2016 amounts to BGN 4,352 thousand.

20. Related parties disclosures (continued)
20.1. Related parties balances (continued)

Receivables from related parties

In thousands of BGN	Notes	2016	2015
Subsidiaries	14	119	17
		119	**17**

Cash at banks – related parties

In thousands of BGN	Notes	2016	2015
Entities over which the parties exercising control in accordance with IAS 24 (under point 1) have a significant influence or are members of their key management personnel.	15	24	116
		24	**116**

Related parties payable related to debenture loan

In thousands of BGN	Notes	2016	2015
Parties exercising control within the meaning of IAS 24		22,325	22,226
Key management personnel, including the Management and Supervisory Board of the company		30	30
Entities under common control of the parties exercising control within the meaning of IAS 24 (under point 1)		13,799	13,793
	17	**36,154**	**36,049**

Payables to related parties

In thousands of BGN	Notes	2016	2015
Deposits received (incl. interest payable)			
Subsidiaries		927	504
Other payables			
Subssidiaries		2	-
Entities over which the parties exercising control within the meaning of IAS 24 (under point 1) have a significant influence or are members of their key management personnel.		14	-
	19	**943**	**504**
Short-term		133	504
Long-term		810	-

The received deposits from subsidiaries to 31.12.2016 are unsecured with fixed interest rate and a terms at the end of 2017 and beginning of 2018. The conditions of deposits as at 31.12.2015 are the same as their maturity date is in 2016.

20. Related parties disclosures (continued)
20.2. Related parties transactions

In mhousands of BGN	2016	2015
Dividend income		
- Subsidiaries	4,814	14,233
Interest income		
- Subsidiaries	1,583	1,251
Interest expenses		
- Subsidiaries	26	32
Entities over which the people exercising control within the meaning of IAS 24 (under point 1) have a significant influence or are members of their key management personnel.	1	2
Interest expense and other financial expenses related to debenture loan		
- Parties exercising control within the meaning of IAS 24:	1,113	959
- Key management personnel, including the Management and Supervisory Board of the company.	2	1
- Entities under common control of the parties exercising control within the meaning of IAS 24 (under point 1)	688	703
Expenses on hired services		
- Entities over which the parties exercising control within the meaning of IAS 24 (under point 1) have a significant influence or are members of their key management personnel.	13	18
Revenue from sales of services and fixed assets		
- Subsidiaries	10	78
Purchase of Investments		
- Subsidiaries (Note 13)	228	-
Loans granted to:		
- Subsidiaries	2,612	36,291
Repaid loans and interest paid from:		
- Subsidiaries	7,185	7,661
Deposits received		
- Subsidiaries	2,295	1,100
Repaid loans and paid interests:		
- Subsidiaries	612	1,717
Offsetting of payables related to deposits received with dividend receivable		
- Subsidiaries	1,288	-
Offsetting of payables related to deposits received with loans receivables		
- Subsidiaries	-	1,242

20. Related parties disclosures (continued)

20.2. Related parties transactions (continued)

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on contractual terms. Outstanding balances at the year-end are unsecured (except for loans) and interest free (except for loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables (except for the ones listed below). For the year ended 31 December 2016, the Company has recorded no impairment of receivables relating to amounts owed by related parties (2015: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Company

In thousands of BGN	2016	2015
Short-term employee benefits of the Management Board and the Supervisory Board, including social security	142	153

21. Commitments and contingencies

Legal claim contingency

As of 31 December 2016 no legal claims has been initiated against the Company.

Guarantees

Under a signed contract with a commercial bank to provide credit limit for issuance of bank guarantees, letters of credit and working capital funding for the Holding and/or group companies amounting to a maximum of BGN 10,000 thousand, as of 31 December 2016 bank guarantees issued for subsidiaries of the Group - IHB Electric AD, IHB Metal CastingAD, KRZ Port Bourgas AD, ZMM Bulgaria AD, and Odessoss PBM AD for BGN 1,056 thousand (2015: BGN 1,101 thousand), letters of credit for nil (2015: BGN 98 thousand) and a revolving credit line for working capital funding for BGN 4,000 thousand (2015: BGN 3,000 thousand) was concluded. As of 31 December 2016, the funds utilized by the subsidiary IHB Electric AD under this revolving credit line for working capital funding amount to BGN 2,706 thousand and ZMM Sliven AD - BGN 372 thousand (presented on a net basis in the current separate financial statements). Therefore, the unutilized credit limits under this contracted bank loan amounts to BGN 922 thousand. The contract with this bank is secured with a second ranking special pledge on the trading company - KRZ Port Burgas AD as a set of rights, obligations and actual relations, with registration of the underlying assets in the relevant registries.

With annex dated October 2016 the maximum amount of the credit line for working capital financing is increased from BGN 3,000 thousand to BGN 4,000 thousand, by retaining the maximum limit of BGN 10,000 thousand.

21. Commitments and contingencies (continued)

Securities

As at 31.12.2016 the shares acquired in November 2014 and January 2015 by "Industrial Holding Bulgaria" from "Odessos PBM" AD were pledged in order to secure payment of the price of the contracts to its full payment in 2017.

Others

The management of the Group is of the opinion that no significant risks exist as a result of the dynamic fiscal and regulatory environment in Bulgaria that might require adjustments or disclosure in the financial statements for the year ending 31 December 2016.

22. Financial instruments

Risk management

Review

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

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

Risk management framework

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

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

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

Credit risk

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

22. Financial instruments (continued)

Exposure to credit risk

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

In thousands of BGN	2016	2015
Cash and cash equivalents	27	122
Other receivables	5	28
Related party receivables	34,175	36,788
	34,207	**36,938**

Other receivables

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

The receivables of the Company as of 31 December 2016 are mainly from related parties in relation to the investment program for financing of the construction of ships and shipbuilding. Any amounts of financing provided are approved by the Management Board of the Company.

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

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

	2016	2015
Receivables from Group companies, registered in Bulgaria	*29,823*	33,460
Receivables from Group companies, registered in foreign countries	4,352	3,328
Other receivables from third parties, registered in Bulgaria	5	28
	34,180	**36,816**

Impairment losses

Aging analysis of other receivables as of the reporting date:

In thousands of BGN	**31 December 2016**		**31 December 2015**	
	Gross amount	Impairment	Gross amount	Impairment
Neither past due nor impaired	34,180	-	36,796	-
Not due but impaired	-	-	-	-
Past due 0 – 180 days	-	-	20	-
Past due 180 – 360 days	-	-	-	-
Past due over 360 days	-	-	-	-
	34,180	-	**36,816**	-

22. Financial instruments (continued)

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

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

Liquidity risk

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

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

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

31 December 2016 *In thousands of BGN*	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivatives liabilities							
Trade and other payables	6,245	(6,334)	(1,569)	(4,765)	-	-	-
Debenture loan and interests	50,544	(53,750)	(1,250)	(1,250)	(51,250)	-	-
Deposits received from related parties	927	(946)	-	(102)	(844)	-	-
	57,716	**(61,030)**	**(2,819)**	**(6,117)**	**(52,094)**	**-**	**-**

22. Financial instruments (continued)

Liquidity risk (continued)

31 December 2015

In thousands of BGN	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivatives liabilities							
Trade and other payables	12,049	(12,349)	(1,649)	(4,596)	(6,104)	-	-
Debenture loan and interests	50,524	(56,250)	(1,250)	(1,250)	(2,500)	(51,250)	-
Deposits received from related parties	504	(520)	-	(520)	-	-	-
	63,077	**(69,119)**	**(2,899)**	**(6,366)**	**(8,604)**	**(51,250)**	**-**

As disclosed in Note 17, the Company has a convertible debenture loan. Any breach of covenant may require the Company to repay the loan earlier than the initial maturity. Bonds are convertible and/or payable at maturity date. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

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

Currency risk

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

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

22. Financial instruments (continued)

Currency risk (continued)

Exposure to currency risk

Exposure to currency risk of the Company is as follows:

In thousands of BGN	BGN	EUR	USD	BGN	EUR	USD
		31 December 2016			**31 December 2015**	
Trade and other receivables	5	-	-	28	-	-
Related party receivables	119	-	-	17	-	-
Loan receivables from related parties	10,469	19,841	3,746	17,115	10,489	9,167
Cash and cash equivalents	1	2	2	5	3	1
Cash and cash equivalents- related parties	22	2	-	105	8	3
Payables on convertible bond	(50,544)	-	-	(50,524)	-	-
Payables to related parties	(943)	-	-	(504)	-	-
Trade and other payables	(45)	(1,506)	(4,678)	(99)	(3,012)	(8,938)
	(40,916)	**18,339**	**(930)**	**(33,857)**	**7,488**	**233**

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

	Average exchange rate		**Exchange rate as of the reporting date**	
	2016	2015	2016	2015
BGN/ 1 USD	1.76833	1.76441	1.85545	1.79007

Sensitivity to foreign currency

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

In thousands of BGN	**Change in USD rate**	**Effect on profit before tax**
2016	+1%	(9)
	-1%	9
2015	+1%	2
	-1%	(2)

22. Financial instruments (continued)

Interest rate risk

The Company manages its exposure to interest rate risk by borrowing and lending at fixed rates.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

In thousands of BGN	**2016**	**2015**
Fixed rate instruments		
Financial assets	33,864	36,167
Financial liabilities	(57,024)	(62,316)
	(23,160)	**(26,149)**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	-	-

Sensitivity analysis for fixed rate instruments

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

Capital management

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

23. Fair value of financial instruments

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

	Carrying amount		*Fair value*	
	2016	**2015**	**2016**	**2015**
	BGN '000	*BGN '000*	*BGN'000*	*BGN '000*
Financial assets				
Loans granted to related parties	34,056	36,771	34,056	36,771
Other receivables	5	28	5	28
Related party receivables	119	17	119	17
Cash and cash equivalents	29	125	29	125
Financial liabilities				
Debenture loan (excluding interest liabilities)	49,976	49,957	50,000	50,000
Related party payables	943	504	943	504
Trade and other payables	6,229	12,049	6,229	12,049

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

- Other receivables, related party receivables, cash and cash equivalents, and trade and other receivables and payables – the fair values of these instruments approximate their carrying amounts.
- The fair value of granted loans to related parties and receved deposits from related parties is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. On this basis, the management judged that the fair values of these instruments approximate their carrying amounts. The fair value of these loans is in Level 2 of the fair value hierarchy.
- The fair value of the debenture loan (quoted on the Bulgarian Stock Exchange) is derived from the respective quoted market prices in active market as of the reporting period end. The fair value of this bond is in Level 1 of the fair value hierarchy.

24. Subsequent events

In the month of January 2017 the Company fully paid its obligation to one of the suppliers related to purchase of shares in the capital of Odessoss PBM AD - KRZ Odesos amounting to BGN 1,467 thousand and interest payable in the amount of BGN 41 thousand. With the payment of the debt to the first supplier (KRZ Odessos) the pledge on the respective shares was deleted.

In February 2017, the Company sold 210,000 treasury shares at an average weighted price per share of BGN 0.966. In March 2017 and until the date of approval of the annual financial statements for issue, the Company has not carried out any transactions relating to the decision for redemption of shares. The total number of treasury shares held by the Company at the date of approval of the financial statements was 920,985 shares.

At the annual general meeting of shareholders of Maritime Holding AD held on 09.03.2017, it was voted distribution of dividend by BGN 1.27 per share.

At the annual general meeting of shareholders of ZMM Bulgaria Holding AD held on 16.03.2017, it was voted distribution of dividend by BGN 0.564 per share. At the annual general meeting of shareholders of KRZ Port Bourgas AD held on 20.03.2017, it was voted distribution of dividend by BGN 0.45 per share.

At the date of approval of the separate financial statements, and following a decision of the Board of Directors of BSE-Sofia dated 06.03.2017 on the rebalancing of the main stock index SOFIX, the Company (IHB AD) is removed from the index. This led to a decline in the trading price of its shares. In relation to the way according to which this rebalancing of the index was done, the Financial Supervision Commission performed an investigation which ended with a recommendation to BSE to change the calculation manner of the SOFIX index in the future.

Except for the above disclosed events, no other events have occurred after 31 December, which require additional adjustments and/or disclosures in the Company's separate financial statements for the year ended 31 December 2016.