

IHB

GOVERNANCE



CORPORATE GOVERNANCE

IHB was awarded for Company with Best Corporate Governance for 2005 among all listed companies in Bulgaria

Evaluation of the Program for good corporate governance of IHB

Following review of the Program for good corporate governance /the Program/ and of the activities of IHB, it may be concluded that the actions in 2006, undertaken to fulfil the tasks set, contribute to the achievement of the objectives of the Program. The actions of the management and employees of IHB are directed towards upholding the good corporate governance principles, appreciation of the trust of shareholders, investors and persons interested in the management and activities of IHB, and encouragement of the successful business operations of IHB. IHB received good evaluation of its corporate governance by the Association of the Investors in Bulgaria. At the end of June IHB won the award for Company with best corporate governance for 2005 among all listed companies in Bulgaria. IHB was rated 3rd in best corporate governance for 2004.

Actions related to protection of the shareholders rights

Just the regular annual meeting of the General Meeting of Shareholders of IHB was held in 2005 for reporting on 2004. It was summoned on 25 May and actually took place on 8 June, in accordance with the normative requirements and within the legal deadline, under the conditions of a falling quorum. No changes in the Articles of Association or other internal company documents, regulating the activities of the General Meeting of Shareholders and the management bodies, were effected in 2005.

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

Actions related to disclosure of information and transparency

In 2005, following its principles and traditions of transparency in the activities of IHB, the management and the Investor Relations Director, prepared and submitted the information about the Holding's activities always on time, in a most completely and precise form. The information provided comprise regular statements, changes in the by-laws of the company, the management bodies and operational data, information about held General Meetings of the Shareholders, as well as all important information influencing the price of the company's shares. The information is provided to the Financial Supervision Commission, the Bulgarian Stock Exchange and other institutions, among which BSE-Sofia has always been informed first. Right after publishing of the information in BSE-Sofia's bulletin, IHB published that information on its website. For the purpose of avoiding outflow of inside information, any information, which should be disclosed and may be classified as inside, has been provided in the quickest way possible to the Bulgarian Stock Exchange and the Financial Supervision Commission. No acts for violations have been issued during the year by regulatory bodies.

Actions related to providing for a mechanism of good governance of the company by the management bodies

The adopted procedure for summoning and holding meetings of the management bodies was observed in 2005. The meetings were held on a regular basis, all members were informed about the agenda and were provided with all materials within time sufficient for becoming acquainted therewith before the sessions.

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

In 2005, the management bodies of IHB held 23 meetings at total, including: 13 separate meetings of the Managing Board /MB/, 5 separate meetings of the Supervisory Board /SB/ and 5 meetings attended by the two boards together. MB has sessions 18 times or 1.5 times per month at the average, and SB- 10 times or less than once per month.

The executive directors, with the assistance of the employees, take care that all transactions performed by IHB be in accordance with Bulgarian law and if applicable, international law as well. The decisions on the transactions are taken duly by MB and approved by SB in accordance with their powers. No transactions were performed in 2005, which exceeded the powers of MB and SB and necessitated a decision of the General Meeting of Shareholders. For a 3rd consecutive year, IHB uses the services of the international audit company KPMG, which audits duly the activities and their presentation in the financial statements of the company.

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

INVESTOR RELATIONS DIRECTOR'S REPORT ON ACTIVITIES IN 2005



Dear Shareholders,

During the past year 2005, IHB continued gaining recognition as one of the favourites of the investment community. IHB shares preserved their leading position in terms of liquidity on BSE among all shares of 350 companies. In February 2005, IHB took the lead of the new index BG40 reflecting the movement in share prices of the most liquid companies on BSE. In the beginning of 2006, IHB headed the list of the Capital weekly for the most promising share of 2006 according to portfolio managers and investment consultants.

The capital market in Bulgaria in 2005 was characterised of a slowdown of share prices growth rates compared to 2004 and even a backward price movement – reduction over some periods. Yet, in general, both indexes of BSE - SOFIX and BG40 mark an increase in 2005 as follows: growth of SOFIX by 32% /from 623.59 on 1 January 2005 to 825.53 points in the yearend/ and BG40 – with growth of 33% /from 100 on 1 February 2005 to 133.42 points in the yearend/. For the same period, the shares of IHB marked a rise by 60%. Another specific feature of our market is that share prices are influenced by the results achieved by a given company to the extent as relevant to developed capital markets. For instance, despite the good results of some companies, their share prices fell in the yearend. This makes it difficult to forecast share performance on BSE.

IHB investor relations in 2005

In pursue of the major objectives of investor relations activity, I believe that 2005 was successful in terms of realizing effective communication between IHB and its investors, the regulatory bodies, the stock exchange, the Central Depository and the media. We may proudly say that we enjoy a good reputation for investor relations and are an example of a good listed company according to the investment community opinion.

The 2005 activity was mainly related to:

- Maintaining effective communication with the investment community
- Sustaining good awareness about the IHB operations
- Providing for holding the General Meeting of the Shareholders
- Rendering administrative service and assistance to the shareholders
- Supporting the management bodies in their work
- Maintaining effective communication within the IHB group

Effective communication with the investment community

In IHB we always endeavour maintaining effective communication with the investors and the investment community in general. We view it as a two-way information exchange - from IHB to the investment community and backwards. We appreciate the investment community opinion about us and seek feedback in order to make our presence on the market adequate.

To achieve effective communication, we used the most contemporary means in the area – a printed issue of the annual report, website, meetings with investors and financial analysts and maintaining good relations with the media.

The information about IHB - exhaustive, accessible, delivered on time

In 2005, we continued with the tradition of delivering the most exhaustive information in the reports on the activities, as well as to provide timely share-price-sensitive information /the so-called ad hoc information/.

All company's regular reports were submitted in time as required under the Public Offering of Securities Act /POSA/ and the secondary legislation on its application – quarterly and annual reports, as well as the quarterly and annual consolidated reports. The reports were prepared as to present precisely and fairly the information about the company, as well as to be fully exhaustive in respect of data required by law. All reports were published on IHB website immediately after their publishing in the BSE bulletin. The statements were also issued in English in short term.

The printed copy of IHB consolidated annual report for 2004, in English, was published in August 2005 – a trend of shortening the term for publishing. It was prepared in accordance with the best international practices and the latest trends in annual reporting and was highly appreciated.

On an ongoing basis, within the terms prescribed by law, there was submitted information about events related to the activities of IHB and the companies of the group that are considered sensitive to the share price.

Organising the General Meeting of Shareholders

The regular General Meeting of Shareholders /GMS/ of IHB was held on 8 June 2005.

The meeting was summoned in accordance with the requirements of the Commercial Act, POSA and the Statutes of the company. The papers were prepared and submitted in time to FSC, BSE, CD and all shareholders that requested to be provided therewith, and were also published on the Internet site of IHB. The results of the meeting were announced in accordance with the requirements and within the terms stipulated in the legal framework, as well as on the Internet site of the holding.

Always at service to its shareholders

IHB maintains proper relations with its shareholders by informing and assisting them in issues and problems arisen. In 2005, there was noticed an increase in the interest and inquiries by institutional investors, financial analysts and financial media. The interest of foreign investors grew and a big part of those whom we met became our shareholders. Meetings were held in 2005 with investors, at their initiative or at the initiative of financial analysts and brokers. The number of meetings of management with professional and institutional investors and analysts increased, whereat information about the operations of IHB Group companies and results was provided. The interest of small investors remained relatively the same as during the previous year and the issues most commonly raised were about dividend distribution, trade with shares, decisions taken at the general meeting held, the results and activities of IHB, the issue of debentures.

We, in IHB, maintain good relations with the media and always respond to their inquiries in an exhaustive manner.

It is my pleasure to share with you the information that IHB is assessed by the investment community and the media as one of the most transparent and accessible public listed companies in Bulgaria.

Administrative service to the management bodies

In 2005, all meetings of the Managing and Supervisory Boards were summoned in accordance with the legal requirements and internal procedures of the holding. The invitations with the agenda, accompanied with papers, were sent in time to all members. The minutes of the meetings were kept and are preserved duly.

Assistance for good corporate governance

In 2005, as always so far, IRD has supported the fulfilment of the objectives and tasks under the IHB Good Corporate Governance Program and has assisted the management in carrying out of extensive part of the events provided in the 2005 program.

Effective communication within the group of IHB

The communication process of investor relations activity comprises also information exchange within the group. One of my tasks, as IRD, is to ensure the optimal information flow from the subsidiaries to IHB for the regular and ad hoc information about their activities. For the purpose of timely submission of the share-price-sensitive information, firstly by IHB to BSE, while at the same time preventing the outflow of information from the daughter companies, the organisation and control over the information flow turns out a significant challenge. This activity needs constant improvement and will remain as a priority for 2006 as well.

I would like to thank the members of the managing and supervisory bodies, the executive directors and all colleagues who contribute to implementing the policy for proper and effective investor relations.

Perspectives for 2006

The investor relations activity will be aimed at maintaining proper relations with the investment community and upholding the activity in accordance with the best and contemporary international practices in the field of investor relations.

Investor Relations Director
Bogomila Hristova

CORPORATE SOCIAL RESPONSIBILITY REPORT

“Corporate responsibility : The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”

World business Council for Sustainable Development, 2004

This is our first CSR report. We are not obliged to report on CSR issues as far as Bulgarian legislation or any other code or document, regulating the stock market, is concerned. However, we decided to start reporting on CSR issues because we consider them very important for the company /IHB/ as a part of the corporate environment and its life. Furthermore, we are trying to act as a modern and socially responsible company, adhering to the best corporate practices known worldwide.

At the same time we would be proud to be the first Bulgarian company officially reporting on CSR in its annual report. We hope to stimulate other companies in Bulgaria to follow suit, bringing in the international experience and tendencies in one of the most discussed issues in corporate life for the last years.

A large number of Bulgarian enterprises went through a complicated process of transformation and stabilization, struggling mainly to survive, restore their production volumes and market share after the transition from centralized to a free-market economy. Only after the present economic stabilization and upsurge occurred in the last years, have suitable conditions for turning to social problems and a corporate responsibility for their solving been created. The policy of IHB in this area is based on adhering to the legislation, the European standards for healthy and safe labor conditions, professional qualification and retraining, opportunities for professional development and growth, creating a healthy corporate culture, a spirit of cooperation and loyalty to the company.

We are going to present the basic issues, determining the socially responsible policy of the companies within IHB in this report.

IHB's contribution to the sustainable economic development

IHB invests in companies we want to manage and develop in the long term. IHB has the policy of restructuring, improving and developing the enterprises, not the one of bankrupting them in order to sell their assets.

IHB is one of the largest holding companies in Bulgaria. Its revenue for 2005 is BGN 92 m revenue and the profit is BGN 30 m. The profit tax paid in 2005 by the companies in IHB is BGN 4 m. (excluding VAT and other indirect taxes). The social security expense of IHB group is BGN 5 m.

Most of the companies within IHB are vital for the economy structure of the country and are socially very important for the areas where they operate. For example, shipbuilding was discontinued for more than seven years, more than 5,000 people lost their job and many subcontractors went out of business after the bankruptcy of Varna Shipyard. Through its investment in Bulyard Shipbuilding Industry /Bulyard SI/, IHB helped revive shipbuilding in Bulgaria and, as of now, more than 1,300 people are permanently employed, there are more than 600 subcontractors and a significant number of suppliers from all over the country are engaged.

Another traditional branch of a high priority is machine-building. Our goal was to preserve the production capacity and keep the highly-skilled work force and, relying on established and competitive products, to keep a part of the existing markets and embark on new ones. This approach guarantees a steady development of our companies and an opportunity to invest in new projects and create new jobs. As a result, more than 1,500 people are employed in ZMM Bulgaria Holding. The group has established itself as a leading producer of universal lathes in Europe and our production is sold all over the world.

IHB and the stakeholders

The stakeholders of IHB and its subsidiaries are the shareholders, employees, contractors – clients and suppliers, local communities and the society as a whole.

The relations with our shareholders are presented in details in the Investor Relations Director's report.

Relations with employees of IHB

Labor standards

As at June 2006 the employees of IHB and its companies are more than 3,500. The holding puts every effort into setting a policy of correct labor relations.

No child labor or forced labor is used by the companies of IHB, and extra time is paid for. The requirements and good practices for work and rest are adhered to, and the actual use of yearly paid leaves is encouraged.

Compensation is set in accordance with the acknowledged objective criteria and is paid out on time, together with the social security payments. Payments for additional pension and insurance are made as bonuses. Canteens are set where possible, and additional payments are made to lower the food expense of the employees. Some companies provide transportation to the work site or cover some of the transportation expenses of their employees. Appropriate free food is provided to the ones working in hazardous conditions. Specialized work clothing and personal protection is

provided where necessary and applicable. Most of the companies provide bonus payments for the yearly leave and holidays like Easter and Christmas.

No discrimination on the basis of gender, race, religion or political beliefs is allowed at work. Equal rights and opportunities to work, development and career are offered, based entirely on qualifications, personal qualities and achieved results.

Collective bargaining

The management maintains good relations with labor unions and heeds to their position about the rights of the workers. There are existing collective labor contracts in 40 % of the companies, and the terms agreed upon in those contracts are much more favorable than the ones set by the Labor Code.

A representative of the unions is on the supervisory board of Bulyard SI.

None of the companies has restricted the right of the workers to be members of not-for-profit organizations, parties or other informal groups. Certainly, belonging to organizations that foster ideas against moral and socially acceptable norms of social responsibility is not tolerated and supported.

Work conditions

Industrial Holding Bulgaria strives for healthy and safe work conditions in its companies.

All companies are audited in terms of work conditions in accordance of the Bulgarian legislation, and measurement and risk appraisal are done every year. Recommendations are issued if necessary and negligence is remedied in a timely manner.

In 2005, almost all of the companies within the group underwent repair works of the buildings, the production and the utility premises. Projects financed by Work Conditions Fund were carried on in three of the companies: production premises were repaired in Elprom ZEM; crane safety was improved in Leyarmash; a new system for blasting and painting was introduced in Bulyard SI.

Elprom ZEM is getting ready to implement and get certified by OHSAS 18001 - a system to maintain healthy and safe work conditions.

Work accidents

As a whole, the number of work accidents can be defined as low. 1.1 % of the employees of the group have suffered a work accident.

There are no work accidents in Elprom ZEM, ZMM Nova Zagora, Bulgarian Register of Shipping, Privat Engineering and Dunav Tours for 2005. There are one to three light work accidents in KRZ Port Bourgas, Leyarmash, Mashstroy, ZMM Sliven and Avgusta Mebel. There are about 30 registered work accidents of various severity in Bulyard SI, mainly due to negligence and non-following of the instructions on behalf of the workers. To prevent work accidents and minimize the time till medical help, Bulyard SI has employed a full-time doctor and is in the process of purchasing an ambulance and a fire truck.

Additional facilities for the employees

An 80 bed boarding house for workers who do not live in Varna was restored and furnished in Bulyard SI in 2005. An expansion for another 100 people will be put into use in 2006.

Healthcare for the employees

All companies within the group have a contract with labor medicine facilities. Health files of the employees are kept and preventive examinations are carried out.

The employees are insured against work accidents, and, when necessary, IHB and the companies have a practice of supporting financially their employees when undergoing a medical treatment.

Encouraging employee self-improvement

Acknowledging the fast pace of development and change, we, at IHB, realize that people have to be prepared for that. On the one hand, self-improving is necessary for the organization to remain adequate and deal with the challenges of competition. On the other hand we acknowledge the need of people for development, qualification and change of careers.

Various forms of education are encouraged in IHB – seminars, attending domestic and international conferences, company meetings, presentations, etc.

The Center for Professional Training in Bulyard SI was restored in 2005. The Center operates throughout the year with approved curricula for the following professions: welder manual electric arc welding and hullers. Everyone who has finished the training in the Center is offered a full-time job in the factory.

Relations with partners of IHB

IHB and the companies from the group have relations with more than 1,600 companies and people worldwide. More than 700 companies and citizens of more than 70 countries are clients of the group /excluding the clients of Dunav Tours numbering tenths of thousands/.

We aspire to be honest and respectable business partners by maintaining traditionally good relations with suppliers and customers and keeping to negotiated terms and strictly fulfilling our obligations.

IHB and the local community

IHB aims for a leading position in each of its activities. As a result from the policy of transparency and full access to the information about the activity, adopted by the management team, the International Accounting Standards were implemented within the group in 2002, and in 2003 they were implemented in all of its subsidiaries and associated companies.

As of 2003, the holding presents to the community a printed version of its annual reports, and maintains a bilingual version of the current information and the archive on its web site. As a result, we received the 2004 award of the Bulgarian Stock Exchange for a full disclosure of information. Furthermore, in 2005 we received the award of the Investors Association for the company with the best corporate governance.

We try to have a good relationship with the state and municipal administration and to cooperate for the positive business climate of the country. Many of the managers of IHB and its companies are socially active and participate in not-for-profit organization in the country

and abroad. Some of them are municipal councilors. IHB is a trustee of the Atanas Bourov Foundation and traditionally supports its main goal - to discover and encourage talents in the sphere of economics among the youth. IHB also supports in various ways orphanages.

Academic involvement

Some of the managers of IHB participate actively in the academic boards of the technical universities in Varna and Sofia.

There are practices for scholarship and internship programs for high school and university students, aiming both to help find qualified personnel and to help the young people in their academic endeavors. Students majoring in Shipbuilding in the Technical university of Varna and the students from the Marine High School-Varna have the chance for an internship in the factories.

The companies maintain active relations with the Technical University of Varna, the Technical University of Sofia, the University of National and World Economy and the Naval Academy of Varna.

Elprom ZEM and Bulyard SI have developed new programs for attracting and development of young experts in four degrees – from scholarship, through bachelor, master and doctorate by covering the education cost and providing employment.

Safe products and services

The companies of IHB (ZMM Bulgaria Holding, Bulyard SI, Augusta Mebel) work mainly with investment goods, so their quality, safety and longevity are of a paramount importance. As for the companies, operating on the consumer market (KRZ Port Bourgas, Odesos PBM, Bulgarian Register of Shipping and Dunav Tours), the fact that they operate exclusively on the international market imposes a high standard in terms of safety, terms and quality.

All companies have implemented ISO 9001 quality management system and are certified by licensed international companies like Lloyd, SGS and BV.

The quality management process in the companies of IHB is looked upon as a system of a few components:

- Creation and guarantee of conditions to produce goods and services with the necessary quality;
- Supply chain management
- Post-warranty service
- Quality performance measurement.

Environment protection

The management of IHB oversees the environmental impact from the productions in the group. It is required that the subsidiary companies report on a yearly basis in their business plans on the environmental impact from their activities and the measures to be taken in case of a negative impact.

IHB TEAM



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IT Manager

Bogomila Hristova
Investor Relations
Director

Toshka Vassileva
Chief Accountant

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