



INDUSTRIAL HOLDING BULGARIA

Annual Report 2009

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IHB **governance**

Corporate governance



In October 2007 a National Corporate Management Code was adopted. On 26.10.2007 IHB signed a declaration that it accepts the National Corporate Management Code and that it will carry out its business in compliance with its provisions. The document was published by BSE. The compliance with the Code follows the principle “obey or explain”. Information about that is presented additionally as part of the Annual Financial Statements.

“Comply or explain” report

on the Bulgarian National Corporate
Governance Code of October 2009

Industrial Holding Bulgaria PLC

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Introduction

Since 2003 IHB prepares a Corporate Governance Program and makes report on the corporate governance activities in its Annual Management Reports since 2003.

In October 2007 National Corporate Governance Code was accepted in Bulgaria. The Code was accepted by the Bulgarian Stock Exchange-Sofia. BSE-Sofia requires that the companies listed on the Official market should comply with the Code.

On 26 October 2007 IHB signed a declaration where IHB states that accepts the National Corporate Governance Code and will make its activities in compliance with its regulations.

The compliance of the Code is reported on the “comply or explain” principle, which means that the Company complies with the Code’s recommendations or the management explains

the reasons when the activities depart from or do not comply with the recommendations.

In this Report information on the applying the recommendations of the Code in IHB corporate governance is presented.

The actions of IHB management and employees are in direction of confirming the principles for good corporate governance, increasing the trust of the shareholders, investors and the stockholders and for encouraging the successful business activities of IHB.

The IHB management took a decision for developing a new up-to-day corporate governance strategy for IHB in conjunction with the latest international best practices. Now, after the acceptance of the National Corporate Governance Code, IHB will take actions in this direction.

Chapter One CORPORATE BOARDS

IHB has a two-tier management system. That is why the recommendations for one-tier management system of the Code are not applicable and are excluded from this document.

Two-tier System

The Management Board and the Supervisory Board jointly act in the interest of all the company shareholders and take into consideration the interests of the company's stakeholders.

1. Management Board

1.1. Functions and Tasks

1.1.1. The Management Board manages the company in accordance with the company's visions, goals and strategies established by the Supervisory Board in the best interest of all shareholders.

IHB applies this practice. The MB manages the company guided by the accepted vision, aims and strategy of the company and aims at protecting the shareholders interests.

1.1.2. The Management Board should implement the strategy of the company in accordance with the directions of the Supervisory Board.

IHB applies this practice.

1.1.3. The Management Board should develop the company's risk management and internal audit policy. It must implement the company's risk management system and report on implementation to the Supervisory Board.

IHB applies this practice. IHB has a system for risk management which is constantly improved in accordance with the dynamic changes of the economic and financial environment where the group companies operate. The Chief Executives of IHB and the subsidiaries periodically assess the risks the businesses are facing and discuss the measurements for the risk management at least three times a year at joint meetings, as well as operatively when a need occurs. The MB informs the SB on joint meetings and/or through IHB activities reports, which are made on non-consolidated and on consolidated bases quarterly and annually.

1.1.4. The Management Board must ensure that the company meets its contractual obligations.

IHB applies this practice. The MB makes all of its efforts to keep the obligations in the contracts IHB signs.

1.1.5. The Management Board should set up the company's financial information system and ensures it is efficiently working in accordance with the directions set by the Supervisory Board.

IHB applies this practice. IHB has a financial information system, which is updated in accordance with the needs of the Group and the requirements of the legislation, including the international accounting system. The MB secures its reliable functioning. The system is revised by a certified auditor, chosen by the GMS and is revised by the Audit Committee, chosen in 2009.

1.1.6. The Management Board should work in cooperation with the Supervisory Board on developing the company's business plan; carrying out extraordinary and material transactions; and implementing any other operations and actions required by the company's by-laws.

IHB applies this practice. The decisions of the MB are agreed by the SB as required by the Commercial Act, The Public Offering of Securities Act and the Statute of the company.

1.1.7. The Management Board must inform and report to the Supervisory Board on its actions. Management Board should provide information in the format and within the established deadlines required by the Supervisory Board.

IHB applies this practice. The MB informs the SB about its activity on joint meetings and/or through IHB activities reports, which are made on non-consolidated and on consolidated bases quarterly and annually.

1.1.8. During their mandate the members of the Management Board should act in a professional and diligent manner and conduct themselves according to the commonly accepted principles of integrity and duty of care.

IHB applies this practice.

Management Board should adopt and follow a professional ethical code of conduct.

IHB will apply this practice. At present IHB does not have a Code of Ethics.

1.2. Structure and Competence

1.2.1. The structure and the number of members on the Management Board should guarantee the effective performance of the company.

IHB applies this practice. The members of the MB have appropriate education, management experience and competences in different fields and thus contributing the MB as a body to be effective in managing the company. Two of the members are elected as executive directors and each of them is responsible for definite activities in IHB and the companies in the Group based on the experience and the competences each of them has.

1.2.2. The responsibilities, tasks, duty of care and duty of loyalty of members of the Management Board to the company, as well as the criteria and level of remuneration and the conditions for removal from the Board should be stipulated by contract.

IHB applies this practice.

1.2.3. The required skills, rights and responsibilities of the members of the Management Board must comply with the law and the company's by-laws, and follow good professional standards and practice.

IHB applies this practice.

1.3. Remuneration

1.3.1. The amount and criteria for the remuneration of the members of the Management Board should – in accordance with the law and good corporate governance practices – be based on the following criteria:

1.3.1.1. The responsibilities and the contributions of the member of the Management Board to the company's performance and results;

1.3.1.2. The ability to attract, select and retain qualified and loyal managers;

1.3.1.3. The need to have the interests of the members of the Management Board aligned with the long-term interest of the company;

IHB applies this practice.

1.3.2. The remuneration of members of the Management Board should consist of two parts: fixed compensation and variable incentives.

1.3.2.1. In addition to a fixed compensation, the Company can offer to the Management Board member shares, options on shares, and other appropriate financial instruments.

1.3.2.2. The guidelines and procedures for the issue and use of additional incentives to the members of the Management Board are set out in the company by-laws. *IHB applies this practice. The remuneration of the MB members is based on the responsibilities which everyone has including the direct responsibility for a concrete subsidiary in the Group as a member of the Board of Directors of the same. Until now no shares, share options or other suitable financial instruments have been given to the members of the MB.*

1.3.3. The remuneration of the members of the Board of Directors must be disclosed in accordance with the law and the company's by-laws. Shareholders should have easy access to information concerning the remuneration of Management Board members.

IHB applies this practice. Information about the remuneration of the MB is presented in the Annual Report, which is published on the IHB website.

1.4. Conflict of Interests

1.4.1. The members of the Management Board should prevent any real or potential conflict of interests.

IHB applies this practice.

1.4.2. The procedures for preventing and disclosing conflicts of interests should be provided for in the company's by-laws.

IHB applies this practice.

1.4.3. The members of the Management Board should

immediately disclose any conflicts of interests to the Supervisory Board and provide shareholders access to information about transactions concluded between the company and members of the board or any related party.

IHB applies this practice.

1.4.4. Each conflict of interests should be disclosed to the Supervisory Board.

IHB applies this practice.

It is stated in the Status of IHB that the members of the MB shall avoid conflict of interests, as well as what actions they are obliged to undertake in case of conflict of interests.

1.4.5. A potential conflict of interests exists when the company intends to realize a transaction that involves: (a) a party related to or with financial interest linked to a member of the Management Board; (b) Board members that are either members of the Supervisory Board or the Management Board.

2. Supervisory Board

2.1. Functions and Tasks

2.1.1. In accordance with the division of functions within the two-tier governance system, the Supervisory Board must appoint the Management Board of the company, provide it with strategic guidance, oversee and control its activities.

IHB applies this practice.

2.1.2. The Supervisory Board should define and oversee the implementation of the vision, goals and strategy of the company. It should provide adequate guidance to the Management Board for implementation.

IHB applies this practice.

2.1.3. The Supervisory Board should provide adequate guidance to the Management Board concerning the effective development and implementation of the company's risk management and internal audit systems and the proper functioning of financial information systems.

IHB applies this practice.

The SB holds its meetings, including jointly with the MB, on which appoints, gives directions and supervises the MB.

2.1.4. The Supervisory Board must ensure the compliance of the company with legal, normative and contractual obligations, as well as with the rules embedded in the company by-laws.

IHB applies this practice. In 2009 the SB made an Audit Committee which members are elected by the GMS.

The main functions of the AC are to supervise the processes on financial reporting, the effectiveness of the systems for internal control and independent financial audit of the Company.

2.1.5. In carrying out its tasks, the Supervisory Board should ensure that an effective and proper functioning information exchange system with the Management Board is in place.

IHB applies this practice. The SB exchanges information

with the MB operatively and on joint meetings with the MB, on which receives information, gives directions and supervises the MB.

2.1.6. At least once a year the Supervisory Board should evaluate the performance of the Management Board as a whole and the work of each of its individual members.

IHB will apply this practice.

2.1.7. The Supervisory Board must perform its tasks and carry out its obligations in compliance with the law, the company’s by-laws and according to the commonly accepted principles of integrity and duty of care.

IHB applies this practice.

2.2. Appointment and Removal of Management Board Members

2.2.1. The Supervisory Board should appoint and remove the members of the Management Board in compliance with the company’s by-laws and in accordance with good corporate governance standards, while respecting the principles of continuity and ensuring the stability of the Management Board’s work.

IHB applies this practice.

2.2.2. The compensation policy of the Supervisory Board should guarantee effective performance of the company in the best interest of its shareholders.

IHB applies this practice. The remuneration of the MB members is based on the responsibilities which everyone has including the direct responsibility for a concrete subsidiary in the Group as a member of the Board of Directors of the same. In defining the remunerations the SB takes into consideration the labor market situation, the economic situation in which IHB and its subsidiaries operate and the policy on remuneration in IHB Group.

2.3. Structure and Competence

2.3.1. The members of the Supervisory Board should carry out their tasks independently and impartiality in the best interest of the company.

IHB applies this practice. One of the three members of the SB is independent according to the requirements of the Public Offering of securities Act.

2.3.2. The number of members of the Supervisory Board, including the number of independent members and the proper division of tasks among them, should be provided in the company’s by-laws.

IHB applies this practice.

2.3.3. The independent members of the Supervisory Board should be impartial and act in the best interest of the company and all its shareholders.

IHB applies this practice.

2.3.4. The members of the Supervisory Board should have appropriate knowledge and experience to inform the decisions and actions they take. At least one of the members should have financial competences.

IHB applies this practice. The members of the SB have appropriate education, management experience and competences in different fields and thus contribut-

ing the SB as a body to be effective in supervising the management of the company. One of the members has a financial education and each member has a financial competence and experience necessary for the management functions..

2.3.5. After their election, the new members of the Supervisory Board should attend an induction programme including legal and financial issues related to their task and the company’s activities and performance.

IHB will apply this practice after the election of a new member of the SB. The present members are familiar with and are introduced with the changes regarding legislative and financial questions, related to IHB activities, including the good corporate governance principles.

2.3.6. Continued professional training of members of the Supervisory Board should be encouraged.

IHB will apply this practice.

2.3.7. The members of the Supervisory Board should be able to devote sufficient time to carry out their tasks and duties. The company’s by-laws should limit the number of board positions the members of the Supervisory Board is allowed to hold.

IHB does not apply this practice. IHB is not able to limit the activities of the members of SB. Despite this the members of the SB are able to devote sufficient time to carry out their functions in the SB of IHB.

2.3.8. The procedures for selecting new Supervisory Board members should take into account the principles of continuity and ensure the stability of the Supervisory Board’s work.

IHB applies this practice.

2.4. Remuneration of Members of Supervisory Board

2.4.1. The amount and criteria for the remunerations of the members of the Supervisory Board must be approved by the General Meeting of Shareholders.

IHB applies this practice.

2.4.2. The amount and criteria for the remuneration of the members of the Supervisory Board should be based on their responsibilities and contribution but should not be tied to the company’s results.

IHB applies this practice. The remuneration is a constant monthly payment for each member of the SB.

2.4.3. The remunerations of Supervisory Board members should be determined so as to reflect their individual participation in Board meetings, their performance level in regard with their assigned tasks, their ability to oversee and control the operations of executive management. Independent directors should not receive any additional remuneration in any form from the company.

IHB applies this practice.

2.4.4. The members of the Supervisory Board should not be compensated for their activity with shares or options.

IHB applies this practice.

2.4.5. The remuneration of the members of the Supervisory Board must be disclosed in accordance with the law and the company's by-laws. Shareholders should have easy access to information concerning the remuneration of Supervisory Board members.

IHB applies this practice. Information about the remuneration of the SB is presented in the Annual Report.

2.5. Conflicts of Interests

2.5.1. The members of the Supervisory Board should prevent any real or potential conflict of interests.

IHB applies this practice.

2.5.2. The procedures for preventing and disclosing conflicts of interests should be provided for by the company's by-laws.

IHB applies this practice.

2.5.3. The members of the Supervisory Board should immediately disclose any conflicts of interest and provide shareholders access to information about transactions concluded between the company and members of the board or any related party.

IHB will apply this practice. It is stated in the Status of IHB that the members of the SB shall avoid conflict of interests, as well as what actions they are obliged to undertake in case of conflict of interests.

2.5.4. A potential conflict of interests exists when the company intends to realize a transaction that involves:

- (a) a party related to or with financial interest linked to a member of the Supervisory Board;
- (b) Board members that are either members of the Supervisory Board or the Management Board.

2.6. Committees

2.6.1. The work of the Supervisory Board should be assisted by committees. The Supervisory Board should determine the need for setting up committees in accordance with the specific operations of the company.

2.6.2. The Supervisory Board should establish at a minimum an audit committee, which should be comprised of independent directors and experts.

2.6.3. The committees should be set up according to pre-established and adopted written terms of reference which should include the scope, tasks, modalities and reporting procedures of the committee.

IHB will apply this practice. In May 2009 the GMS elected an Audit Committee to the Supervisory Board. Members of the AC are the independent member of the SB, with a financial education and competences and management experience, one external for the Group expert with appropriate education and experience and one expert, employee in IHB Group also with appropriate education and experience. The activity of the AC is stated in the Regulations for its activity.

Chapter Two AUDIT AND INTERNAL CONTROL

1. In accordance with the established professional standards and requirements, the Board of Directors (in the one tier system) and the Supervisory Board (in the two tier system) should - assisted by the audit committee - present in writing at the General Meeting of Shareholders a motivated proposal for the selection of an external auditor.

IHB will apply this practice. At the RGMS of IHB in 2009 the SB proposed to the GMS a registered auditor on the bases of the recommendations of the AC.

2. The principle of rotation should be applied in selecting and appointing an external auditor.

IHB will apply this practice. Each year the Management examines and discusses offers from different auditors and after careful assessment, the best candidate is offered for election to the General Meeting of Shareholders. The auditors are elected for each financial year.

3. The company should set up an internal control system that guarantees effective reporting and disclosure of information.

4. The internal control system should be developed and operate in order to ensure the early identification of any material risks the company may face and to effectively manage those risks.

IHB will apply this practice. IHB has a system for internal audit which is constantly improved according to the legislation requirements and the best practices. The Audit Committee makes revision of the system for internal audit.

Chapter Three PROTECTION OF SHAREHOLDERS' RIGHTS

1. Protection of Shareholders' Rights

The Board of Directors or the Supervisory Board should ensure the equitable treatment of all shareholders, including minority and foreign shareholders, and should be responsible for the protection of their rights.

IHB applies this practice. The corporate management is aiming at treating equally all shareholders. An example for this is that each information considered as important and price-sensitive is released and is published at the same time in FSC, Investor.bg, BSE-Sofia and IHB's website. Additionally the information is being sent by e-mail to all who have shown interest in IHB. The information is published in Bulgarian and in English at the same time or with a slight delay of the English translation, regarding the reports, for which time is necessary to be translated. The corporate management are aiming at protecting the shareholders' rights by all means as they keep the requirements of the laws and the internal acts of IHB.

2. General Meeting of Shareholders

2.1. All shareholders must be able to participate in the General Meeting of Shareholder and to express their opinion.

IHB applies this practice.

2.1.1. Shareholders who have the right to vote should have the opportunity to exercise their voting rights through the use of a proxy at the General Meeting of Shareholders.

IHB applies this practice.

2.1.2. The Board of Directors or the Supervisory Board should exercise effective oversight and ensure that necessary arrangements are made for the voting by authorised representatives (proxies) in accordance with the instructions of the shareholders and in accordance with the law.

IHB applies this practice.

2.1.3. The Board of Directors or the Supervisory Board must establish rules for the organisation and conduct of regular and extraordinary General Meeting of Shareholders. These rules must guarantee the equitable treatment of all shareholders and the right of each shareholder to express his/her opinion about the items on the agenda of the General Meeting of Shareholders.

IHB applies this practice.

2.1.4. The Board of Directors or the Supervisory Board should establish the rules and procedures for the conduct of the General Meeting of Shareholders in a manner which does not make voting procedure unnecessarily difficult or expensive.

IHB applies this practice.

The shareholders rights are stated in the Statute of IHB and are according to the requirements of the legislation and best practices. The GMS is being organized and held in accordance with the requirements of the legislation and best practices and the experience of IHB.

2.1.5. The Board of Directors or the Supervisory Board should take action to encourage the participation of all shareholders at the General Meeting, including those who cannot make it physically by allowing the use of information technology (including Internet) when ever possible and necessary, and in accordance with item 2.1.3 of the present Code.

IHB will apply this practice when there is a legislative requirement and a safe and reliable technical opportunity.

2.2. All members of the Board should attend the General Meeting of Shareholders.

IHB applies this practice.

2.3. The preparation of written materials for the General Meeting of Shareholders should comply with the following:

2.3.1. Documentation and reference materials related to the agenda of the General Meeting of Shareholders must be clear, accurate and to the point in order not

to mislead the shareholders. All proposals concerning the major corporate events should be presented as separate items on the agenda of the General Meeting of Shareholders, including the proposal for the distribution of dividends.

IHB applies this practice.

2.3.2. The company should maintain a special section on its website describing the rights of shareholders and the rules and procedures for their participation in the General Meeting of Shareholders.

IHB applies this practice. There is a section Corporate Governance on IHB's website where there is a section Shareholders' rights.

2.3.3. The Board of Directors or the Supervisory Board should ensure court-authorized shareholders [shareholders with 5% or more shares] can place additional items on the agenda of the General Meeting of Shareholders.

IHB applies this practice. There has been no such case up to date, but such a possibility is stated in the Statute.

2.4. The Board of Directors or the Supervisory Board must guarantee the right of all shareholders to be informed on a timely basis about the decisions that have been made at the General Meeting of Shareholders.

IHB applies this practice. The minutes of the GMS are published within the legislative terms in FSC, Investor.bg, BSE-Sofia and on the IHB's website.

Chapter Four DISCLOSURE OF INFORMATION

1. The Board of Directors or the Supervisory Board must establish the company's information disclosure policy in compliance with legal requirements and the company's by-laws.

IHB applies this practice.

2. In accordance with established policies, the Board of Directors or the Supervisory Board oversee the implementation and ensure proper support for an effective system for disclosure of information.

IHB applies this practice.

3. The system for disclosure of information should guarantee equal access to information to shareholders, investors, and other stakeholders and should not allow for any abuse of internal information or insider trading.

IHB applies this practice.

4. The Board of Directors or the Supervisory Board should guarantee that the system for information disclosure provide for comprehensive, timely, true and understandable information to allow for objective and well-informed decision making and assessments.

IHB applies this practice.

5. The Board of Directors or the Supervisory Board

should establish internal rules for the production and dissemination of mid-term and annual reports. The Board of Directors or the Supervisory Board should ensure that these rules are implemented and should oversee the proper disclosure of the information in a way that guarantees compliance with provision # 3 of this chapter.

IHB applies this practice.

IHB provides detailed information in the activity reports and share price sensitive information (the so-called ad hoc information). The information is submitted within the required terms by Law on Public Offering of Securities and the legislative acts on its implementation. The information is prepared so as precise and reliable information on the Company may be provided and full compliance with the applicable legal provisions may be ensured. The whole information is published on the website of IHB immediately upon their publishing in the bulletins of Investor.BG and the Financial Supervision Commission /FSC/ and additionally is being sent by e-mail to investors, analysts, journalists and other who have shown interest in IHB. To avoid the market abuse with internal information, IHB publishes the information at fastest as possible — during the day when it becomes known or at latest on the next day. To give enough time for analyzing the information IHB publishes the information usually after the end of the Stock Exchange session. The information is published in Bulgarian and in English at the same time or with a slight delay of the English translation, regarding the reports, for which time is necessary to be translated. The legal framework regarding the activities of public companies and information disclosure is constantly followed up and the new provisions are complied with.

6. As a part of a well functioning system for the disclosure of information, the Company should to set up and maintain a company website. This website should be operated in accordance with approved policies on the content, scope and regularity of information disclosure. The official information posted on the website should include at minimum:

- Information about the company
- Information about the joint-stock structure
- The company's by-laws
- Information about the governing bodies
- Financial reports covering at least the previous 3 years
- Materials for upcoming General Meeting of Shareholders
- Minutes of the General Meeting of Shareholders of the last 3 years
- Information about external auditors
- Information about up-coming corporate events
- Any information that is material to the company's activities

IHB applies this practice. The whole information about IHB and its current development is published in Bulgarian and in English on its website: www.bulgariaholding.com

7. The company should regularly disclose information about its corporate governance. The disclosure of corpo-

rate governance information should state the company's level of compliance with the present Code in accordance with the “comply or explain” principle. This principle requires companies to comply with the recommendations of the present Code or to explain the reasons for not complying with individual provisions of the Code.

IHB applies this practice since 2007. A Comply or Explain Report is prepared as a part of the Annual Report of IHB.

Chapter Five

CORPORATE GOVERNANCE AND STAKEHOLDERS

1. Corporate governance should ensure effective interaction with the company's stakeholders. To this category fall certain interested parties and groups of individuals who are directly influenced by the company and who influence and/or are in a position to influence the company, including for example: suppliers, clients, employees, creditors, civil society groups, and others. The company should identify the stakeholders who are interested in its activities, on the base of their scale and sphere of influence and impact, as well as their role and relationship to sustainable development.

IHB applies this practice.

2. The company's stakeholder policy must be in compliance with existing laws. Good corporate governance practices should require taking into consideration the interests of stakeholders in accordance with the principles of transparency, accountability and business ethics.

IHB applies this practice.

3. The Board of Directors or the Supervisory Board should establish specific rules for addressing the interests of stakeholders. These rules should ensure appropriate stakeholder engagement when decisions requiring their input are made.

These rules should also balance the interests of the company and the interests of the economic, social and ecological environment in which the company operates.

IHB will apply this practice.

4. The Board of Directors or the Supervisory Board should support effective stakeholder participation in accordance with the law and international good practices in matters of non-financial information disclosure and reporting. The company should disclose information about economic, social and environmental issues of concern to stakeholders, for example: anti-corruption policies; labor policies, policies regulating supplier and client relations; the company's corporate social responsibility policies; environmental protections and nature preservation policies.

IHB applies this practice.

Since 2005 IHB makes a Corporate Social Responsibility Report. The Report is prepared in accordance with the best international practices for reporting the company's corporate social responsibility and is part of the Annual Consolidated Report. IHB is the first listed company in Bulgaria which started to prepare and publish CSR report.



Information about the members of the Managing and Supervisory Boards.

In February 2009 Mr. Georgi Momtchilov, taking over from Mr. Katsarov, was elected a new member of the Management Board and Executive Director of IHB. With Decision 20090217124730 the Trade Register to the Registration Agency entered the following changes in the circumstances of Industrial Holding Bulgaria AD: Deletes Anguel Stoyanov Katsarov as a member of the Management Board, as an Executive Director and as a representative of the company due to his death; Enters in his place as a member of the Management Board Georgi Yanchev Momtchilov; Enters Daneta Angelova Zheleva as Chief Executive Director; Enters Georgi Yanchev Momtchikov as Executive Director; The company is represented by Daneta Angelova Zheleva and Georgi Yanchev Momtchilov jointly and separately.

Contracts under Article 240b of the Commerce Act signed during the year.

The company has not signed contracts with the Members of the Board of Directors or parties related to them which go beyond its normal practices or deviate materially from the market conditions.

Remunerations paid to the members of the Supervisory and Management Boards

Remunerations received in 2009 /BGN/		
Members of the Supervisory Board	From IHB	From IHB subsidiaries
DZH AD, through Representative		
Elena Kircheva	12 000	-
Snezhana Hristova	12 000	-
Konstantin Zografov	12 000	60 557
Members of the Management Board		
Bozhidar Danev	12 000	157 000
Daneta Zheleva	36 000	110 500
Georgi Momtchilov	20 857	12 000
Borislav Gavrilov	12 000	-
Boyko Noev	12 000	-

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

In 2009 the total amount of the paid social security by IHB to the members of the Management and Supervisory Boards, including mandatory pension insurance amount to BGN 4,826.

IHB and its subsidiaries do not set aside and do not charge other amounts for provision of pensions, other retirement compensations or other similar indemnities.

Information about the shares of IHB AD held by members of the Supervisory and Management Board as of 31 December 2009:

	Acquired in 2009	Transferred in 2009	Number of shares held directly	Number of shares held through related parties	Total directly and through related parties	% of the votes in GMS directly and through related parties
Members of the Supervisory Board						
DZH AD	0	0	2 440 655	0	2 440 655	5.58%
Snezhana Hristova	0	0	1 605	33 140	34 745	0.079%
Konstantin Zografov	0	0	582	208	790	0.002%
Members of the Management Board						
Bozhidar Danev	0	0	208	0	208	0.0006%
Daneta Zheleva	0	0	26 386	2 440 863	2 467 249	5.64%
Georgi Momtchilov	0	0	75	5000	5000	0.005%
Borislav Gavrilov	0	0	208	624	832	0.002%
Boyko Noev	0	0	0	0	-	0

ACTIVITY REPORT OF THE AUDIT COMMITTEE OF IHB Plc FOR 2009

The present Activity Report of the Audit Committee / AC/ of IH Bulgaria Plc /the company, the holding / was prepared pursuant to the Regulation on the Activity of AC, the Statutes of the company and in compliance with article 40 of the Law on the Independent Financial Audit /LIFA/, according to which the Audit Committee reports its activities before the general assembly once a year, together with the acceptance of the annual financial statements.

The Audit Committee of IH Bulgaria Plc was selected by the General Assembly of the Shareholders on 07.05.2009, with a mandate of three years and composition of three members: Maxim Stanev Sirakov, Snezhana Ilieva Hristova and Boryana Vladimirova Dimova. In compliance with the provisions of LIFA and article 6 of the Regulation on the Activity the main functions of the Audit Committee are to:

1. monitor the financial reporting processes at IH Bulgaria Plc;
2. monitor the efficiency of the internal control systems of the company;
3. monitor the efficiency of the risk management systems of the company;
4. monitor the independent financial audit of the company;
5. review the independence of the registered auditor of the company in compliance with the requirements of the law and the Ethics Code of the Professional Accountants, including to monitor the provision of additional services by the registered auditor of the company.

At a joint meeting in May 2009 the Audit Committee accepted and the Supervisory Board confirmed the Regulation on the Activity of the Audit Committee of IH Bulgaria Plc and elected as chairperson of AC Maxim Sirakov, and as secretary - Nelly Kercheva - Director of Financial Analyses and Investments of IH Bulgaria Plc. In compliance with its primary objectives and tasks the Audit Committee, together with the Supervisory Board, decided to request offers from several audit companies

in view of selecting the best offer and a suitable auditor. At a joint meeting with the Supervisory Board in June 2009 the Audit Committee discussed the received three offers for external auditors and recommended to the Supervisory Board, after it coordinated the issue with the Management Board, to propose to the General Assembly of the Shareholders to select as the registered auditor of IH Bulgaria Plc for 2009 the specialized company KPMG – Bulgaria OOD in view of the good price offered and the comprehensive approach of the auditors, including knowledge of the business and the economic sectors the holding operates in.

In December 2009 the Audit Committee held a meeting where it made a review of the internal control system and discussed the results from the performed interim audits of the company and the preparation /plan/ for the annual audit. The Director of the Internal Control Unit of IH Bulgaria Plc informed AC about the internal inspections carried out in 2009 by companies in the Group of IH Bulgaria Plc. Their results were discussed, as well as the efficiency of the internal control system. AC accepted the Annual Plan for Internal Audit by Companies in 2010. The objective of the management is to perform a planned inspection in each company of the investment portfolio of the holding every 1.5 years, and to perform extraordinary inspections – currently, when necessary. The Audit Committee considers that the internal control system of the holding operates effectively, supports the management's decision-making process and contributes considerably for the limitation of the operating risks at the companies in the system of IH Bulgaria Plc. The Audit Committee met also with the representative of the registered auditor for 2009 KPMG - Bulgaria OOD. The subject of the discussion were the performed interim audit and the preparation for the annual audit of the Group of IH Bulgaria Plc. The members of the Audit Committee were informed about the findings from the performed interim audit by companies. Forthcoming tasks and requirements of the external auditor regarding the preparation for the annual financial audit for 2009 of the Group of IH Bulgaria Plc were discussed. AC

considers that the processes of financial reporting and preparation of the financial statements of the company are structured appropriately and are under the constant control and supervision of the management, which is responsible for the financial statements.

In 2009 in compliance with the requirements of the Law on the Public Offering of Securities IH Bulgaria Plc prepared and submitted within the legal timeframe all interim unconsolidated, interim consolidated and respectively the annual unconsolidated and the annual consolidated financial statements to the Financial Supervision Commission, to the regulated market and to the public.

The Audit Committee requires regular reports by the Investor Relations Director of IH Bulgaria Plc regarding the information provided during the year to the regulatory body - the Financial Supervision Commission. In 2009 the Financial Supervision Commission did not establish any violation and did not draw up a statement of violation to the management of the holding.

In May 2010 AC held a meeting where it discussed the individual and consolidated report of the company for 2009 and made a review of the financial reporting and risk management in the system of the holding. AC met and listened to the representative of the registered auditor KPMG – Bulgaria OOD. AC considers that on the basis of the information it has available, the financial statements are complete and comprehensive in compliance with IAS and IFRS and correspond to the actual position of the company, with which the auditors concur. The financial and accounting system and the accounting books provide the necessary information about the proper management of the assets and liabilities of the company as well as about the timely uncovering and prevention of potential errors and misuse. Also, the risk management processes are efficiently organized and provide the necessary control by the management on the operating and market risks to which the company is exposed.

The Audit Committee made a review of the activity and

independence of the registered auditor KPMG - Bulgaria OOD and studied the enclosed declaration of independence, objectivity and absence of conflicts of interest as per the International Audit Standards and the requirements of LIFA are met. Pursuant to the discussion held AC decided to recommend to the General Assembly of the Shareholders to select as auditor of IH Bulgaria Plc for 2010 KPMG Bulgaria OOD.

THE AUDIT COMMITTEE

ACTIVITY REPORT OF THE INVESTOR RELATIONS DIRECTOR OF IHB Plc FOR 2009



Dear Shareholders,

The past 2009 was a critical year for the business and the companies. The equity investors were cautious, waiting companies' results to outline the trend of economies' development in order to take positions. During the year the share prices were volatile but at the end the positive expectations for end of the recessions in most economies and for pushing from the bottom outweighed and a big part of the capital markets marked indices rose for 2009. The Bulgarian capital market also marked a growth even significantly lower than other markets. In 2009, the shares of IHB shares became again one of the most liquid positions on the Bulgarian Stock Exchange /BSE/ among the shares of 350 companies. IHB's shares marked a rise of 13.64% as compared to SOFIX's index growth of 19.13%, BG40 - 8.67% and BGTR30 - 22.73%.

Investor relations of IHB in 2009

In 2009, IHB continued the good policy in its investor relations. The effective communication

between IHB and its investors, the regulatory authorities, the stock exchange, the Central Depository and the media has been always the main objective of this activity. The communication success is measured by the reputation in the circles of the investors' society and we are glad to announce that IHB enjoys a very good reputation. The positive assessment by the investors' society is also supported by the fact that IHB has always been named as an example for a company with good corporate governance and investor relations.

The activity in 2009, as well as in the last several years, was mainly related to:

- Maintenance of effective communication with the investors' society
- Provision of sufficient information on the activity of IHB
- Organization of sessions of the General Meeting of Shareholders
- Administrative support and cooperation to the shareholders
- Assistance to the managing bodies in their functions performance
- Maintenance of effective communication within the Group of IHB

Effective communication with the investors' society

We, at IHB, have always tried to maintain effective communication with the investors and investors' society and considered it a two-way exchange of information – from IHB to the investors' society and vice versa. We respect the opinion of the investors' society about us and seek to receive feedback so as we may adequately act in the market.

We used the latest means in the field to achieve effective communication –annual report issue, website, meetings with investors and financial analysts and maintenance of good relations with the media.

The information about IHB – thorough, accessible and provided in due time

In 2009, we continued to traditionally provide detailed information in the activity reports and share price sensitive information (the so-called ad hoc information). All regular reports of the Company required under the Law on Public Offering of Securities and the legislative acts on its implementation, i. e. quarterly and annual reports and consolidated quarterly and annual reports, were presented in due time. The reports were prepared so as precise and reliable information on the Company may be provided and full compliance with the applicable legal provisions may be ensured. All reports were published on the website of IHB immediately upon their publishing in the bulletins of Investor.BG and the Financial Supervision Commission /FSC/. In 2008, we established the practice of sending of messages containing sensitive information /IR releases/ to investors by e-mail following their publication on the website of IHB. The reports were published in English in short terms.

The 2008 Consolidated Annual Report of IHB was published in English in June 2009. Traditionally, it was prepared in compliance with the best international practices and the latest trends in the sphere of annual closure and it, once again, enjoyed a high evaluation. Information about the events related to the activity of IHB and the Group's companies, considered sensitive to share price, was provided within the legal terms on regular basis. The legal framework regarding the activities of public companies and information disclosure is constantly followed up and the new provisions are complied with.

Organization of the General Meeting of Shareholders

In 2009 two General Meeting of Shareholders were held. On 7 May 2009 an Extraordinary GMS appointed an Audit Committee as a body in help of the Supervisory Board of IHB and empowers the Managing Board to conclude a transaction within the meaning of Art. 114 of the Public Offering of Securities Act. The regular annual session of the General Meeting of Shareholders of IHB was held on 23 June 2009. The General Meeting of Shareholders approved the Consolidated and Non-consolidated Activity Reports, the Registered Auditor's Report and the Financial Statements for 2008, exempted the members of the Management and Supervisory Boards from responsibility for their activities in 2008, extended the mandate of two of the members of the Supervisory Board, voted the remunerations of the members of the Supervisory Board, elected KPMG Bulgaria a registered auditor for 2009, distributed the 2008 profit of IHB and made amendments in the Statute of IHB.

Always at shareholders' disposal

IHB maintains loyal relations with its shareholders through due notification and assistance in relation to certain issues and problems. In 2009 meetings were held and information was given to investors on inquiries but it may be concluded that the investors were passive. Bigger interest was shown by analysts who were mainly interested in the risks faced by the companies within the IHB Group as well as the activities of the companies within the Group and the results of IHB. The interest on behalf of small investors remained almost unchanged as compared to the preceding year and most of the issues raised were about the dividend distribution, the share trading, the decisions made by the General Meeting, the results and activity of IHB and the issue of bonds.

IHB maintains good relations with the media and always gives detailed responses to their inquiries.

I am glad to say that IHB is assessed by the investors' society and the media as one of the most transparent and accessible public companies in Bulgaria.

Administrative support to the managing bodies

In 2009, all sessions of the Management and Supervisory Boards were convened in compliance with the applicable legal provisions and the internal rules and regulations of the Hold-

ing. The invitations, containing the agendas and accompanied by relevant materials, were sent to all members in due time. The session minutes taken are duly kept.

Cooperation for good corporate governance

In 2009, as usual, the Investor Relations Director assisted in the realization of the objectives and tasks of the Good Corporate Governance Policy of IHB and provided support to the Management of the Holding in the realization of most events envisaged under the Program for 2009.

Effective communication within the IHB Group

The communication process accompanying the investor relations also includes exchange of information within the Group. One of my duties, in the capacity of Investor Relations Director, is ensuring an optimal information flow from the subsidiaries of IHB to IHB regarding the regular and ad hoc information on their activities. The organization and control of the information flow is still a great challenge with a view to provision of share price sensitive information by IHB to the society, FSC and BSE firstly and prevention of information outflow from the subsidiaries. This activity will remain a priority in 2010 in consideration of the ongoing introduction of higher requirements to information disclosure as well.

I would like to thank all Members of the Managing and Supervisory bodies, the Executive Directors and all Colleagues who contribute to the implementation of the loyal and effective investor relations policy.

2010 Outlook

The activity related to investor relations will be directed at maintenance of honest relations with the investors' society and be kept in full compliance with the best and latest international practices in the sphere of investor relations.

April 2010

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