

# IHB GOVERNANCE



# 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 2007 is BGN 162 m revenue and the profit is BGN 12 m. The profit tax paid in 2007 by the companies in IHB is BGN 1 m. (excluding VAT and other indirect taxes). The social security expense of IHB group is BGN 6 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 1000 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 May 2008 the employees of IHB and its companies are more than 3,100. 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 the past three years 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 implemented and got 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% 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 2007. 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 was 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. In 2007 IHB took the lead in a ranking for best online investor relations.

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.

The nature of operations of IHB and its assets do not raise environmental issues. Insofar as the operations of the Holding are determined by its subsidiaries, their ecological issues indirectly affect also the use of assets within IHB Group as a whole.

The accession of Bulgaria to the European Community involves commitments at a national level and subsequently – requirements to the business operating in the country to meet environmental norms and standards in terms of the production capacities and processes. Increasing emphasis is placed on the solution of the various related issues.

### Shipbuilding and Ship Repair

The overall technological process at Bulyard Shipbuilding Industry, conforming to all normative documents and operative instruction for proper execution of the relevant activities, is compliant with the respective environmental concerns. In 2006 and to present, the company has executed the following environmental events:

- Step-by-step thorough cleaning of the whole area of the company from production, construction, residential, petroleum waste;
- A program for waste management up to the year 2011 has been elaborated and approved by the Regional Inspectorate on Environment and Waters;
- Strict control has been enforced to maintain order and cleanness in the area of the company through regular inspections and monetary sanctions;
- The collection and disposal of scrap materials has been organized;
- Waste materials are collected separately according to financial and environmental concerns;
- Regional Inspectorate on Protection and Control of Public Health - Varna has issued to the company a sanitation certificate for handling of hazardous waste;
- A large-scale inventory of the electrical equipment potentially containing polychlorinated biphenyl has been made, in compliance with European environmental requirements;
- A scheme for reduction of harmful emissions and a plan for solvents management as per the production and technological processes of the company and in compliance with Regulation <sup>1</sup> 7/21.10.2007 have been elaborated and approved by the Regional Inspectorate on Environment and Waters;
- Sample collection points for the organized emission sources from the installation for tin processing - zero line /1 collection point for the blasting sector, one for the sector and one for the drying sector / were determined as per the technical documentation of the technical department and Regulation <sup>1</sup> 6/26.03.1999. These have been approved by the Regional Inspectorate on Environment and Waters; Inspections by the controlling bodies have been carried out for all environmental aspects, no serious violations have been established, no financial sanctions for environmental violations have been imposed.

Urgent measures for the resolution of the following issues are forthcoming:

- Estimate and repair of the sewerage system, update of the map of the system with all connection points were carried out in 2007;
- Development, introduction, and execution of a system for separate collection of residential waste. The task will continue during the following year and will be executed in line



with European requirements and the waste management program of the company;

- On-going regular measurements of the dust, noise, and organic compounds pollution levels;
- Establishment of a permanent structure for reduction of volatile organic compounds emissions of the organized emissions sources from the tin processing installation – zero line;
- Construction of an indoors blasting and painting chamber.

## Port Operations

In order to meet the environmental requirements for port activities, in 2006 Dockyard Port – Bourgas developed and approved a Corporate Waste Management Program up to 2011, in compliance with the European environmental standards.

## Machine building

The technological processes at ZMM Sliven which have an impact on the environment are directly connected to components coating – oxygenation, chroming, galvanization. The waste waters are collected in a water purification station with separate basins for acid-alkaline waters and chrome purification waters, where they are neutralized with the necessary chemicals. After deposition, a chemical analysis is carried out and if the results are satisfactory the water is discharged into the residential sewerage system and the solid waste, i.e. the deposit, is stored in specialized cisterns on the territory of the company. There is no government decision yet as to how and where this type of waste is to be stored. In our opinion it will be one of the key problems requiring investments for its definitive solution.

ZMM Sliven has a dedicated swarf unit where the swarf is stored separately from other waste until it is handed over for recycling. A lubricant unit is also established to store used lubricants which are periodically handed over to the refineries for secondary processing.

At Mashstroy the following production processes have an impact on the environment:

- Manufacture of castings from gray cast iron;
- Metal coating;
- Lacquer coating;
- Generation of solid metal waste.

The quartz sand is the principal material used for manufacture of castings. Its drying releases gas emissions attracting tiny sand particles and dust. The separation of the solid particles takes place in three cyclones. The gases from the casting section are released directly into the atmosphere through ventilation. In the melting unit an aspiration system has been mounted for organized release of the emissions from metal melting activities. Its commissioning is forthcoming.

The waste sand from smelting causes some problems be-

cause until recently it was stored on-site at the company. As a temporary measure the sand is deposited at the specialized site at the old city landfill of Troyan with the permission of the Regional Inspectorate on Environment and Waters – Pleven and Troyan Municipality. Because of the large volumes /1,500 – 2,000 tons per year/, the site is almost full. It is possible to recycle the used smelting sand so that only 20% of it will be deposited to the designated depot.

Pursuant to EU Directive 99/13/EC and Regulation No 7 of 2003 on the allowed norms for emissions of volatile organic compounds released into the atmosphere as a result of the use of organic solvents in certain installation, it will be necessary to modernize the existing painting chambers. The operators of installations within the scope of the Regulation need to submit to the competent bodies annual plans for solvents management. Such a plan is about to be developed.

A part of the metal waste is reused.

All plants at ZMM Nova Zagora have been designed and constructed in compliance with the environmental requirements during operation, and the regulated operations per types of production activities have been determined in advance and are monitored for compliance with the normative legislation of the country.

In 2006 Elprom ZEM did not register any specific problems with negative environmental impacts. The company holds an ISO 14 001:2004 certificate for environmental safety and ecological production. The production technologies presently used do not have a negative impact on the environment. Problems occur related to the regular maintenance of the existing aspiration systems in sections impregnation, vacuum-compound plant, lacquer machine, and the section-baking unit of the coil workshop. With the accession of Bulgaria to the European Union and the need of harmonization of the environmental legislation and norms, a solution will need to be found for the following issues:

- Replacement of the impregnation lacquer which is used together with a very harmful solvent with a new environment-friendly and water soluble type of lacquer;
- Purchase of a painting chamber for compliance of the painting section with the environmental norms and labour safety requirements;
- Construction of filters in the rotor section.

In terms of environmental safety Leyarmach has made serious investments. The two operational units emitting the most dust – regeneration and short blasting chamber – are connected with dry filters from where the dust is collected in special containers and bags and disposed of by a specialized company. Sand regeneration makes the process effectively waste-free in terms of moulding mixtures. Local aspirators have been built to the separate operational units. The aspirators in the cleaning sector are not operational. On the roof there are

about 30 axial ventilators coming out from the cupola furnace. The amortization of the heating aggregate of the furnace and the heightened requirements of foreign clients are some of the reasons for the decision of the management of ZMM Bulgaria Holding to gradually stop the cupola furnace and start induction melting of the cast iron. The two new induction furnaces bought from Inductotherm, Turkey, will solve the problem with the gases released by these production processes.

It is necessary to construct a new sector for production of transmission gear cores, to carry out a number of repair and rehabilitation works on the regeneration system for the sand, blenders, and hoisting equipment, to renovate the casing inventory. It is urgent to solve the issue with the earthing and lightning protection installations.

The efforts of Leyarmach for solution of environmental issues focus mainly in two directions:

- Organizational, technical, and investment measures for limiting to the minimum the principal pollutants – washing grate, shot blasting chamber, mould cleaning section;
- Complex measures for improvement of the environmental conditions in the vicinity of the main technological aggregates.

## Furniture Production

The production technology at Augusta Mebel has been organized towards meeting the environmental requirements within the presently attainable limits. The main raw material – wood in its various aspects – is almost completely utilized. The released solid waste from the wood processing are burnt in one of the steam boilers which has been modified for this purpose. Other solid waste – deposits from the lacquer section, deposits from the press unit, and empty lacquer containers are in negligible quantities, but at the insistence of the Regional Inspectorate on Environment and Waters they are determined as hazardous and stored in a waste storage facility.

Air protection is a specific for the company problem regarding negative environmental impact. Air pollution is effected mainly through exhaust gases from the chimney of the steam station and when drying lacquer coating:

- The company has now mounted a gas-powered installation but the burning of the wood waste will not be entirely eliminated;
- The volatile organic compounds from organic solvents threaten to become a problem for the company in case of an increase of the quantity of the used volatile nitro-cellulose lacquers. As per the above-cited Regulation <sup>1</sup> 7, in case of an annual consumption of solvents exceeding 15 tons, the operations of the company fall within the scope of the Regulation. This will require the elaboration of a Solvents Management Plan and Emission Reduction Scheme, whose main objectives are the reduction of

harmful emissions. The solution of the problem is to look for other types of lacquer with minimum or no emission of volatile organic compounds into the atmosphere.

## River Cruises

The ships of Dounav Tours operate in European waters and their operations comply with the environmental regulations and laws of the countries through which they navigate. Potential pollution may occur from the lubricants used for the cruise ship engines. The problem has been solved by disposing the lubricants against payment at places specified for the purpose.

The European Union pays special attention to the solution of environmental issues in pre-accession and newly-joined countries. It is not a coincidence that this is one of the fields in which various institutions extend gratuitous grants and as of 2007 the Accession Funds will also start subsidizing such project. Companies in the IHB Plc group have used and are currently using subsidies from various state funds for the solution of their environmental problems.

In 2004 and 2005 Leyarmach and Elprom were granted funding from the Labor Conditions Fund to the Ministry of Labor and Social Policy in order to ensure healthy and safe working conditions. In 2006 Bulyard Shipbuilding Industry was also approved for funding by the same fund. In 2007 Elprom ZEM launched a second project. The project of Leyarmach with energy saving and environmental effects will also rely on European subsidies.