

IHB GOVERNANCE



Corporate governance

In October 2007 the National Corporate Governance Code was adopted.

On 26 October 2007 IHB Plc signed a declaration on adoption of the National Corporate Governance Code and will carry out its activity in compliance with its provisions. The document was published by BSE.

The compliance with the Code is based on the comply with or explain principle.

“Comply or explain” report on the Bulgarian National Corporate Governance Code of October 2007 Industrial Holding Bulgaria PLC

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Introduction

IHB complies with the regulatory requirements of the Bulgarian legislation. 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.

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 will apply this practice.

1.1.4. The Management Board must ensure that the company meets its contractual obligations.
IHB applies this practice.

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.

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.

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.

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.

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. 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.*

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.*

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.

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.

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.

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.

2.3. Structure and Competence

2.3.1. The members of the Supervisory Board should carry out their tasks independently and impartially 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.

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.

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.

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.

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. Until now no committees have been founded because of lack of such practice in Bulgaria and recommendations for its foundation.

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. Until now the proposal had been motivated orally.

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 has a system for internal control which is constantly improved according to the legislation requirements and the best practices.

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.

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.

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.

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.

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.

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.

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 corporate 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.

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 respon-

sibility 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.