

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.

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

In 2007 no changes were made in the composition of the Management Board and the Supervisory Board. By a decision of the General Meeting of Shareholders dated 29 August 2007 the following members of the management bodies were reelected:

Reelection of Konstantin Kouzmov Zografov, a member of the Supervisory Board, for another mandate;
Reelection of all members of the Management Board – Bozhidar Vasilev Danev, Daneta Angelova Zheleva, Angel Stoyanov Katsarov, Borislav Emilov Gavrilov and Boyko Nikolov Noev;
Reelection of Daneta Angelova Zheleva and Angel Stoyanov Katsarov, Executive Directors.

These particulars were registered by Decision No 22 of 27 December 2007 Sofia City Court.

Contracts under Art. 240b of the Law on Commerce signed in 2007

The Company signed no contracts with the members of the Board of Directors or their related parties, which are out of its usual operations or materially deviates from market conditions.

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

Remunerations received in 2007		
	From IHB	From IHB subsidiaries
Members of the Supervisory Board		
DZH AD, through Representative	6 000	-
Elena Kircheva	-	-
Snezhana Hristova	6 000	-
Konstantin Zografov	6 000	62 300
Members of the Management Board		
Bozhidar Danev	6 000	-
Daneta Zheleva	18 000	156 000
Angel Katsarov	10 000	127 000
Borislav Gavrilov	6 000	12 000
Boyko Noev	6 000	-

The remunerations received by the members of the Management Board and the Supervisory Board of IHB include amounts received and non-monetary benefits, contingent or deferred remuneration arising during the year, even if the remuneration is owed at a later date. The 2007 total amount of social security contributions paid by IHB in favour of the members of the Management Board and the Supervisory Board, including obligatory pension insurance contributions, is BGN 1 440.

IHB and its subsidiaries do not set aside or accrue other amounts for pensions, pension compensations or other similar compensations.

The members of the boards received no non-monetary benefits, contingent or deferred remunerations. IHB and its subsidiaries owe no pension, pension compensations or other similar benefits to the members.

Information about the shares held by the members of IHB Plc Supervisory and Management Boards as at 31 December 2007:

As at 31 December 2007 no options on securities of IHB were granted to the members of the Management Board and the Supervisory Board.

	Acquired over the 4th quarter of 2007	Transferred over the 4th quarter of 2007	Number of shares held directly	Number of shares held through related parties	Total number of shares held directly and through related parties	% of the votes in the General Meeting of Shareholders, directly and through related parties
Members of the Supervisory Board						
DZH AD	1 056 262	200 000	2 440 655	0	2 440 655	5.58%
Snezhana Hristova	7225	0	475	16 550	17 025	0.039%
Konstantin Zografov	315	0	582	208	790	0.002%
Members of the Management Board						
Bozhidar Danev	83	0	208	0	208	0.0006%
Daneta Zheleva	1 066 899	200 000	26 386	2 440 863	2 467 249	5.64%
Angel Katsarov	863	0	0	2 158	2 158	0.005%
Borislav Gavrilov	332	0	208	624	832	0.002%
Boyko Noev	0	0	0	0	0	0

Investor relations director's activities report for 2007



Bogomila Hristova,
Investor Relations Director

Dear Shareholders,

In 2007 we continued our aspiration for maintaining high professionalism in investor relations activities. The IHB's shares again were one of the most liquid positions on the Bulgarian Stock Exchange (BSE) among the shares of 350 companies.

The IHB shares kept their place in the international indexes of Dow Jones: Dow Jones STOXX EU Enlarged Total Market Index and the indexes of Dow Jones Wilshire Global Total Market IndexSM, as well as in the two indexes of BSE-Sofia. In 2007 IHB shares were included in the new index of BSE-Sofia BGTR30 and in one new index of Dow Jones - Dow Jones STOXX Balkan 50 Equal Weighted Index, the latest presenting the movements of the 50 biggest and most liquid shares, traded on the Balkans Stock Exchanges.

Following the accession of Bulgaria to EU, a number of other legislative amendments have come into force as of 1 January 2007. Most of them are new to the old EU member states as well – for example: the Transparency Directive. Amendments were adopted in many legal regulations: the Law on Public Offering of Securities, the Ordinance on the Prospectuses and Information Disclosure. The Law on Measures against Market Abuse with Financial Instruments and the Law on Financial Instruments Markets are in action. There are other amendments in the capital market legislation.

The continuous introduction of new higher requirements makes the investor relation activities more complex. This imposes the necessity of thorough study of the obligations of public companies, as well as ensuring proper mechanisms for meeting these obligations. Bulgarian companies have no related experience and a lot of work is to be done so as efficient solutions for organization of operations and information flows may be provided.

Investor relations of IHB in 2007

In 2007 IHB continued to pursue a good investor relations policy. Î õâç 2007 ä. 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 these activities. 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 good public company.

The operations in 2007, as well as in the last several years, were mainly related to:

- Maintenance of effective communication with the investors' society
- Provision of sufficient information on the operations 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' community

We, at IHB, have always tried to maintain effective communication with investors and the 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 act adequately on the market.

We used the latest means in the field to achieve effective communication – printed annual reports, webpage, meeting with investors and financial analysts and maintenance of good relations with the media.

IHB took the lead in the rankings for information disclosure to investors

IHB registered best results in two online information surveys of PFS Program and the Economic Policy Institute. Both surveys focus on the 40 largest companies based on market capitalization as at 1 March 2007.

The first survey has been directed at determination of the extent to which the leading companies in Bulgaria disclose information to present and potential investors, required for investment decision-making purposes. IHB is ranked first. Together with this, IHB is the best company in online reporting corporate social responsibility: corporate governance, environmental policy and social policy based on the results of the second survey made by PFS Program and the Economic Policy Institute.

The whole survey may be found at the following website: <http://www.pfsprogram.com>.

It is worth noting that these results are based on the old website IHB launched in October 2004. In October 2007 IHB launched a new website and the novelty is in:

- Restructured and additional information in Investors Center on IHB and its results, latest news and events, reports, share price and useful information;
- New section Corporate Governance where the principles of IHB corporate governance are presented;
- New section Corporate Responsibility where the main aspects determining the social responsibility policy of IHB Group companies are presented.

The website presents also the whole activities of IHB as management, activities and portfolio. The new website meets all the world requirements for presenting comprehensive information to the investors and shareholders of IHB.

The information about IHB - thorough, accessible and timely provided

In 2007, we continued to traditionally provide detailed information in the report on operations 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 timely presented. The reports were prepared so as precise and reliable information about the Company may be provided and full compliance with the applicable legal provisions may be ensured. All reports were published on the webpage of IHB immediately upon their publishing in the bulletin of BSE. The reports were published in English in short terms.

The 2006 consolidated annual report of IHB was published in English in August 2007. Traditionally, it was prepared in compliance with the 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 operations 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 operations 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 2007 two GMS were held. The regular General Meeting of Shareholders of IHB was held on 1.06.2007.

The GMS accepted the Activities Report, The Auditors Report and the Financial Statements for 2006, exonerated of responsibility the members of the Managing and Supervisory Board for their activity in the year 2006, voted remuneration to the members of Supervisory Board and selected KPMG Bulgaria OOD for a registered auditor for 2007 and distributed the profit for 2006. Because of the maturity on 2 July 2007 of the issue convertible bonds issued by IHB, the GMS held on 1 June 2007 accepted a decision to increase the capital of the Company by virtue of Article 195 of the Commerce Act through conversion of convertible bonds ISIN code BG 2100010045 into shares with up to BGN 5 250 805 – the issue size. At the maturity date, all the convertible bonds were converted.

On 29 August 2007 and extraordinary GMS was held and it took a decision for increase of the capital of the company through issue of up to 17 502 693 number new ordinary dematerialized voting shares with nominal value BGN 1 and issue value BGN 2.40.

The Meetings were convened in compliance with the provisions of the Law on Commerce, the Law on Public Offering of Securities and the Company's Statutes. The materials were prepared and timely presented to the Financial Supervision Commission, the Bulgarian Stock Exchange, the Central Depository and all shareholders who have requested them and were published on the webpage of IHB. The results from the Meeting proceedings were disclosed in compliance with the applicable provisions and within the legally required terms on the Holding's webpage as well.

Always at shareholders' disposal

IHB maintains loyal relations with its shareholders through due notification and assistance in relation to certain issues and problems. In 2007, the interest and inquiries on behalf of institutional investors, financial analysts and financial media continued. Foreign investors continued to show even greater interest in meeting investors on their initiative or on the initiative of financial analysts and brokers. The number of meetings between professional and institutional investors and the management, during which information about the operations of the Group's companies and the results of IHB was presented, increased. The interest on behalf of small investors remained almost unchanged as compared to the preceding year and most of the issues raised were about dividend distribution, share trading, decisions made by the General Meeting, the results and operations of IHB and the debenture issue.

IHB maintains good relations with the media and always give 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 2007, all sessions of the Management Board and the Supervisory Board were convened in compliance with the applicable legal provisions and the internal rules and regulations of

the Holding. The invitations, containing the agendas and accompanied by relevant materials, were timely sent to all members. The session minutes taken are duly kept.

Cooperation for good corporate governance

In 2007, as usual, the Investor Relations Director assisted in the realization of the objectives and tasks of the Good Corporate Governance Program of IHB and provided support to the Holding's Management in the realization of most events envisaged under the Program for 2007.

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 IHB's subsidiaries to IHB regarding the regular and ad hoc information on their operations. The organization and control of the information flow is still a great challenge with a view to timely provision of share price sensitive information by IHB to BSE firstly and prevention of information outflow from the subsidiaries. This activity requires constant improvement and will remain a priority in 2007 in consideration of the ongoing introduction of higher requirements on information disclosure as well.

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

2008 Outlook

The activities related to investor relations will be directed to 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 2008

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Investor Relations Director

IHB TEAM



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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 ¹ 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 ¹ 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 ¹ 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.

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Bulgarian Register of Shipping AD (ss)
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Avgusta Mebel AD (s)
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Dunav Tours AD (a)
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IHB Shipping Co AD (ss)
Founded in 2007

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