



## **COMPLY OR EXPLAIN REPORT** **Pursuant to the National Corporate Governance Code** **2017**

### **Industrial Holding Bulgaria PLC**

Since 2003 IHB has been elaborating Good Corporate Governance Program and every year from 2003 and currently IHB incorporates a report on good corporate governance in its Management Report.

In October 2007 the National Corporate Governance Code was issued. The Code was adopted by BSE-Sofia. BSE-Sofia imposed a requirement on all companies listed and traded on the Official Market to comply with the Code.

On 26 October 2007 IHB signed a statement accepting the National Corporate Governance Code and confirming that the company would carry out its activities in compliance with the provisions of the Code.

Compliance with the Code is based on the principle «comply or explain», which means that the recommendations of the Code shall be complied with and if there is any deviation or violation thereof, corporate bodies must explain and disclose the reasons for non-compliance.

This report contains information on the implementation of the recommendations of the Corporate Governance Code of IHB.

The actions of management and employees of IHB are directed towards implementing good corporate governance principles, improving confidence of shareholders, investors and stakeholders who are interested in IHB's management and operations, and encouraging the successful activities of IHB.

Management of IHB developed a corporate governance strategy, which takes into account the international best practices in this area.



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## Chapter One

### CORPORATE BOARDS

*IHB has a two-tier system of governance and therefore, the recommendations of the Code concerning one-tier systems are not relevant to IHB and thus, they have been excluded from this document.*

#### Two-tier system of governance

**The Supervisory Board and the Management Board act jointly for the benefit of shareholders and respect the opinion of the stakeholders.**

#### 1. Management Board

##### 1.1. Functions and Obligations

1.1.1. The Management Board should manage the company in accordance with the established company visions, goals and strategies in the best interest of all shareholders.

*IHB applies this practice. In its governance activities the Management Board is guided by the adopted vision, goals and strategies of the company and aims to protect the shareholders' interests.*

1.1.2. The Management Board should monitor the performance of the company and initiate changes in the management of its activities, when necessary.

*IHB applies this practice.*

1.1.3. The Management Board should treat all shareholders equally, act in their best interest and in a diligent manner.

*IHB applies this practice.*

1.1.4. The members of the Management Board should base their actions on common principles of integrity and managerial and professional competence. The Management Board should adopt and follow an Ethics Code.

*IHB applies this practice. The Management Board and the Supervisory Board approved Code of Ethics in 2011. By decision of the Management Board of the company, approved by the Supervisory Board dated 26 November 2016 the Code of Ethics was updated and supplemented.*

1.1.5. The Management Board should set up and control the establishment and proper functioning of a corporate risk management system, including internal control and internal audit, while informing the Supervisory Board about its actions in a timely manner.



*IHB applies this practice. IHB implements a risk management system that is refined in line with the dynamic changes in the business and financial environment, in which the group companies operate. Management bodies of IHB and its subsidiaries assess periodically the risks faces by businesses they manage and discuss specific measures. The Management Board informs the Supervisory Board, at joint meetings and/or by submitting reports of the activity to IHB, which are prepared on a consolidated and non-consolidated basis – six month and annual, and quarterly public notifications for financial position. IHB has a well-developed internal control system that is updated to reflect the requirements of legislation and good practices. The Audit Committee conducts reviews of the internal control system. The company has a separate internal control unit, which carries out current and periodical reviews of the system and processes of IHB and of each Group company. Once a year, with effect from 2016, at a meeting of the Supervisory Board, the Management Board of the company presents all gaps within the internal control system, which have been identified and reported on to the Management Board by the Internal Control unit. Following a decision of the Supervisory Board, specific actions are taken to improve the system.*

1.1.6. The Management Board must establish and control the integrated functioning of the financial and accounting systems of the company according to the directions set by the Supervisory Board.

*IHB applies this practice. IHB implements a financial information system that is updated depending on the needs of the Group and the requirements of legislation, including International Accounting Standards. The Management Board ensures its reliable functioning. The system is checked by the Audit Committee to the Supervisory Board, elected in 2009.*

1.1.7. The Management Board should coordinate with the Supervisory Board its work on the company's business plan, carrying out material transactions and implementing any other operations and actions required by the company's by-laws.

*IHB applies this practice. The Management Board coordinated its decisions with the Supervisory Board in accordance with the requirements of the Commercial Act, POSA and the Articles of Association of the company.*

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

*IHB applies this practice. The Management Board informs the Supervisory Board on the activities of IHB at joint meetings and/or by submitting reports of the activity to IHB, which are prepared on a consolidated and non-consolidated basis – six month and annual, and quarterly public notifications for financial position on a consolidated and non-consolidated basis.*



## **1.2. Structure and Competence**

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

*IHB applies this practice. The Management Board comprises 4 members, of whom two executive members – Chief Executive Officer and Executive Director. The members of the Management Board possess suitable education, management experience and competences in various areas. Two of the members have been elected Executive Directors, as each one of them is responsible for specific activities of IHB and Group companies, depending of his/her experience and competences.*

1.2.2. Upon proposing new members of the Management Board, the principles of compliance of the candidates' competencies with the nature of the company's activities should be followed.

*IHB applies this practice. The members of the Board are recognized experts with long-lasting professional experience. When electing members of the Management Board, the Supervisory Board is guided by the principles of management and professional competence of the individual.*

1.2.3. The responsibilities, tasks, 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. The relationships between the company and a member of the Management Board are arranged by means of management contracts. The contract is concluded in writing on behalf of the Company by the Chairperson of the Supervisory Board or another member of the Supervisory Board duly authorised by the Chairperson. The contract stipulates expressly duties, remuneration, etc.*

1.2.4. 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, in accordance with the law and good corporate governance practices, should follow criteria such as:

1.3.1.1. The responsibilities and the contributions of each 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;

*Pursuant to Ordinance No 48 of the Financial Supervision Commission of 20 March 2013 on the requirements for remuneration, on a meeting held on 15 August 2013 the Supervisory Board*



*adopted a remuneration policy of Industrial Holding Bulgaria PLC, which was approved by the General Meeting of Shareholders of the Company held on 30 September 2013. Pursuant to the so-approved policy, the members of the Management Board receive only constant (fixed) remuneration to be determined by the General Meeting of Shareholders on a proposal of the Supervisory Board. The Supervisory Board, on a proposal of the Management Board may determine the payment of additional incentives to the Executive Directors of the Company.*

1.3.2. It is recommended that the remuneration of the members of the Management Board should consist of basic salary and variable incentives.

1.3.2.1. The variable incentives should be specifically defined or definable and should be linked to clear and specific criteria and indicators with respect to the company's performance and/or the meeting of targets set by the Supervisory Board.

1.3.2.2. In addition to the fixed compensation, the Company can offer to the Management Board members shares, options on shares and other appropriate financial instruments as variable incentives.

*Pursuant to the approved remuneration policy of Industrial Holding Bulgaria PLC, the members of the Management Board receive only constant (fixed) remuneration to be determined by the General Meeting of Shareholders of IHB. Until now, the members of the Management Board were not granted shares, share options and other appropriate financial instruments.*

1.3.3. The remuneration of the members of the Management Board must be disclosed in accordance with the law and the company's by-laws. Shareholders should have easy access to the adopted company policy concerning the determination of remunerations and bonuses of the board members as well as to information about the annual remunerations and variable incentives received by such members.

*IHB applies this practice. The remuneration policy applicable to the members of the Supervisory and Management Boards of Industrial Holding Bulgaria PLC is published on the website of the company, Corporate Governance / Management sections. Information on the annual remuneration paid is disclosed in the Management Report to the Annual financial statements of the company, as also in the Report on the implementation of the Remuneration policy.*

#### **1.4. Conflict of interests**

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

*IHB applies this practice.*

1.4.2. The procedures for avoidance and disclosure of conflicts of interests should be stipulated in the company's by-laws.

*IHB applies this practice. The company's Articles of Association and the Code of Ethics of Industrial Holding Bulgaria PLC and its subsidiaries contain provisions on avoiding and disclosing conflicts of interests, and actions to be undertaken in case of any conflict of interests involving members of the Management Board and the Supervisory Board.*



1.4.3. The members of the Management Board should immediately disclose any conflicts of interests and provide shareholders with 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. The Management and the Supervisory Boards guarantee that all related party transactions shall be approved and carried out in such a way, which ensures effective management of conflict of interest and protects the interest of the company and its shareholders.

*IHB applies this practice.*

1.4.5. Each conflict of interests should be disclosed to the Supervisory Board. The members of the Management Board should inform the Supervisory board on having any direct, indirect or third-party-related material interest in any transaction or event, which could directly influence the company.

*IHB applies this practice.*

## **2. Supervisory Board**

### **2.1. Functions and Obligations**

2.1.1. In accordance with the segregation 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 provide guidance to the Management Board in defining the vision, goals and strategies of the company and the interests of its shareholders and should control their 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 system, including internal control, internal audit and financial information systems and their proper functioning.

*IHB applies this practice. The Supervisory Board holds meetings, incl. joint meetings with the Management Board, at which it appoints, gives guidance and supervises the Management Board.*

2.1.4. The Supervisory Board must ensure compliance of the company with the law and the rules set in the company by-laws.

*IHB applies this practice. Since 2009 Audit Committee has been functioning to the Supervisory Board. Its members and its establishment were approved by the GMS. The main functions of the Audit Committee are to monitor the financial reporting processes, risk management systems' effectiveness, and the independent financial audit of the company.*



2.1.5. In carrying out its tasks, the Supervisory Board should establish an effective information exchange system with the Management Board.

*IHB applies this practice. The Supervisory Board exchanges regularly information with the Management Board, as also at meetings held jointly with the Management Board, at which it receives information, gives guidance and monitors the Management Board. Pursuant to the Articles of Association of the company, the Management Board reports on its activity at least once in every three months to the Supervisory Board of the company. The Supervisory Board has the right to request at any time the Management Board to submit data or to report on any matter concerning the company.*

2.1.6. It is recommended that the Supervisory Board should evaluate the performance of the Management Board as a whole and the work of each of its individual members at least once per year.

*IHB will begin to apply this practice.*

2.1.7. The Supervisory Board should treat all shareholders equally, act in their best interest and in a diligent manner.

*IHB applies this practice.*

2.1.8. When performing their duties, the members of the Supervisory Board should have access to all the necessary information about the company's activities.

*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 legal requirements, company's by-laws and in accordance with the best corporate governance standards, while respecting the principles of continuity and sustainability of the Management Board's work.

*IHB applies this practice. New members of the Management Board are elected by the Supervisory Board. Pursuant to the Rules of Procedure of the Management Board, existing members are removed and new members of the Management Board are appointed in a way ensuring continuity in the work of the Board. Pursuant to the Articles of Association of the company, the members of the Management Board may be re-elected without limitation.*

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

*IHB applies this practice. Pursuant to Ordinance No 48 of the Financial Supervision Commission of 20 March 2013 on the requirements for remuneration, on a meeting held on 15 August 2013 the Supervisory Board adopted a remuneration policy of Industrial Holding Bulgaria PLC, which was approved by the General Meeting of Shareholders of the Company held on 30 September 2013. Pursuant to the so-approved policy, the members of the Supervisory and Management Boards receive only constant (fixed) remuneration to be determined by the General Meeting of Shareholders on a proposal of the Supervisory Board. The remuneration of*





*the members of the Management Board depends on the responsibilities assumed by each member, including as directly responsible for a certain group company in his/her capacity as a member of the Management Board of that company. In determining remuneration, the Supervisory Board takes into account the labour market situation, economic situation, in which IHB and its subsidiaries operate, and the IHB Group's remuneration policy.*

### **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 Supervisory Board is an independent member in compliance with the recommendations of POSA.*

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

*IHB applies this practice.*

2.3.3. The independent member should be unbiased and independent and act in the best interest of the company and all its shareholders. It is recommended to limit the number of consecutive terms of independent Board members.

*IHB applies this practice partially. The number of consecutive terms of the independent Board member is not limited by the Articles of Association of the company.*

2.3.4. The members of the Supervisory Board should have appropriate knowledge and experience required to hold such positions. At least one of the members should have financial competences.

*IHB applies this practice. The members of the Supervisory Board possess suitable education, management experience and competences in various areas, thus improving the ability of the Supervisory Board, as a body, to exercise effective control over the company's governance. One of the members has education in finance and all members have financial literacy and experience as may be appropriate for the performance of their management functions.*

2.3.5. After their election, the new members of the Supervisory Board have to be familiarized with the basic legal and financial issues related to their task and the company's activities. Continued professional training of members of the Supervisory Board should be their constant priority.

*IHB applies this practice. The current members are familiarised with and are constantly made aware of any legal and financial issues concerning the activity of IHB, including good corporate governance principles.*

2.3.6. 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 are allowed to hold.



*IHB applies this practice. The members of the Supervisory Board are able to devote sufficient time to carry out their functions as members of the Supervisory Board of IHB.*

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

*IHB applies this practice. The General Meeting of Shareholders elects new members of the Supervisory Board. Members of the Supervisory Board of the company are appointed in accordance with a transparent procedure that ensures timely and sufficient information about the personal and professional qualities of the applicants. The fact that the members of the Supervisory Board may be re-elected ensures the company's effective operation and compliance with legal requirements.*

## **2.4. Remuneration of the members of the Supervisory Board**

2.4.1. The remuneration of the members of the Supervisory Board should be approved by the General Meeting of Shareholders

*IHB applies this practice.*

2.4.2. It is recommended that the remuneration of the members of the Supervisory Board should be based on their responsibilities and contribution and should not relate to the company's results.

*IHB applies this practice. The remuneration is a constant monthly amount payable to each member of the Supervisory Board.*

2.4.3. The remuneration of independent members should be their basic salary only and should depend on their individual participation in meetings, their performance level with regard to their assigned tasks to oversee and control the executive management and their effective contribution to the company's operations.

*IHB applies this practice.*

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

*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 on the remuneration paid to the members of the Supervisory Board is disclosed in the Management Report to the Annual financial statements of the company, as also in the Report on the implementation of the Remuneration policy.*

## **2.5. Conflict of interests**

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

*IHB applies this practice.*



2.5.2. The procedures for avoidance and disclosure of conflicts of interests should be stipulated in 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 with access to information about transactions concluded between the company and members of the board or any related party.

*IHB applies this practice. The Articles of Association of IHB stipulates that the members of Supervisory Board should avoid any conflicts of interests, as also what actions should be taken in case of a conflict of interests.*

## **2.6. Committees**

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

2.6.2. Depending on the requirements of the existing legislation and based on the criteria defined therein, the Supervisory Board approves the proposal the Management Board has made to the General Meeting of Shareholders of the company to elect an audit committee whose composition should comply with the legal requirements and the specific needs of the company.

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 applies this practice. In May 2009 GMS elected Audit Committee to the Supervisory Board. Its members comprise the independent members of the Supervisory Board, who has education in finance, competence and administrative and management experience, and two experts, external for the Group, who also have suitable education and experience. The activity of the Audit Committee is governed by its Rules of Procedure. In connection with the new Independent Financial Audit Act adopted in December, the Rules of Procedure of the Audit Committee will be updated and approved by the General Meeting of Shareholders.*



## Chapter Two

### AUDIT AND INTERNAL CONTROL

1. Corporate boards, assisted by the audit committee and in accordance with the established professional standards and requirements, present in writing at the General Meeting of Shareholders a motivated proposal for selection of external auditor.

*IHB applies this practice. At the Regular Annual GMS of IHB, the Supervisory Board proposes to the GMS a registered auditor on the basis of substantiated recommendations in writing of the Audit Committee of IHB.*

2. Corporate management should ensure compliance with applicable independent financial audit law.

*IHB applies this practice.*

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

*IHB applies this practice. Every year, management reviews and discusses proposals filed by various auditors, and after their careful consideration, the most appropriate one is selected to be proposed to the GMS for appointment. Auditors are elected by the GMS for every financial year on a proposal of the Audit Committee. Besides, IHB makes sure that the audit firms to be appointed comply with the principle of rotation of the auditors directly engaged in and managing the audit of IHB and group companies.*

4. The Audit Committee supervises the internal audit process and monitors the overall relations with the external auditor, including the nature of non-audit services, provided by the latter.

*IHB applies this practice. IHB has a well-developed internal control system that is updated to reflect the requirements of legislation and good practices. The Audit Committee conducts reviews of the internal control system. In compliance with the provisions of the Independent Financial Audit Act (IFAA), the Audit Committee monitors the overall relations with the external auditor.*

5. The company should develop and implement an internal control system which should also ensure early identification of any material risks the company might face and their effective management. Such system should also ensure effective functioning of the reporting and disclosure of information systems.

*IHB applies this practice. IHB implements a risk management system that is refined in line with the dynamic changes in the business and financial environment, in which the group companies operate. The Audit Committee conducts reviews of the internal control system. The company has a separate internal control unit, which carries out current and periodical reviews of the system and processes of IHB and of each Group company.*

*Once a year, with effect from 2016, at a meeting of the Supervisory Board, the Management Board of the company presents all gaps within the internal control system, which have been*



*identified and reported on to the Management Board by the Internal Control unit. Following a decision of the Supervisory Board, specific actions are taken to improve the system.*



## Chapter Three

### PROTECTION OF THE SHAREHOLDERS' RIGHTS

1. Corporate management should ensure equal treatment of all shareholders, including minority and foreign shareholders, and should be responsible for the protection of their rights. Management should also facilitate exercising those rights within the legal limits and according to the company's by-laws. Corporate management should ensure that all shareholders are well informed about their rights.

*IHB applies this practice. Corporate management aims to treat all shareholders equally. The fact that any information considered important to the share price is published simultaneously at FSC, Investor.BG, BSE and the website of IHB is an example of that practice. Moreover, information is sent also to all persons expressing their interest to the company. Information is published in Bulgarian and English language, or delayed for a period of time with respect to the English translation when it concerns reports that need time to be translated. Corporate management aims to protect the shareholders' rights by observing the requirements of the laws and IHB's by-laws.*

#### 2. General Meeting of Shareholders

2.1. All shareholders should be informed about the rules under which General meetings shall be convened and held, including voting procedures. Corporate management should provide sufficient and timely information concerning the date and venue of the General meeting, as well as detailed information on the issues to be discussed and decided on at the meeting.

*IHB applies this practice. The invitation calling a GMS of IHB contains all information concerning the convention of a GMS and voting procedures. The company has adopted Rules for the organisation and holding of GMS of Industrial Holdings Bulgaria PLC and Rules for voting at the GMS of Industrial Holding Bulgaria PLC through a proxy, both of which are published on the company's website. The invitation calling a GMS is announced in compliance with the legal requirements – at least 30 days prior to the date of the GMS the invitation is published in the Commercial Register, submitted to FSC and BSE-Sofia, and published on the company's website.*

2.2. During the General Meeting of Shareholders, corporate management should ensure that each shareholder is in possession of their right to express opinion and ask questions.

*IHB applies this practice. The General Meetings of Shareholders are organised and held in compliance with all provisions of the Public Offering of Securities Act, the Commercial Act and applicable secondary legislation, in a way guaranteeing the right of each shareholder to express opinion on the agenda items. In the talks on each agenda item, the Chairperson of the meeting allows the shareholders to ask questions and express comments.*



2.2.1. Shareholders who have the right to vote, should have the opportunity to exercise their voting rights directly or through the use of a proxy at the General Meeting of Shareholders and where company's by-laws stipulate that - via mail and/or electronic means.

*IHB applies this practice.*

2.2.2. Corporate management should exercise effective control and ensure that necessary arrangements are made to facilitate voting by authorised representatives (proxies) in accordance with the instructions of the shareholders and in compliance with the law.

*IHB applies this practice.*

2.2.3. Corporate management must establish rules for the organisation and conduct of regular and extraordinary General Meetings of Shareholders. These rules must guarantee equal treatment of all shareholders and the right of each shareholder to express their opinion about the items on the agenda of the Meeting.

*IHB applies this practice. The company has adopted Rules for the organisation and holding of GMS of Industrial Holdings Bulgaria PLC and Rules for voting at the GMS of Industrial Holding Bulgaria PLC through a proxy, both of which are published on the company's website.*

2.2.4. Corporate management should establish the rules and procedures for conduct of the General Meeting of Shareholders in a manner, which does not make the voting procedure unnecessarily difficult or expensive.

*IHB applies this practice. GMS is organised and held in compliance with the requirements of law, good practices and experience of IHB. The General Meeting of Shareholders is held at the registered address of the company – Sofia, at a place convenient to members and offering good communications.*

2.2.5. Corporate management should take action to encourage participation of all shareholders at the General Meeting, including by allowing the use of technical means (including Internet) whenever possible and necessary.

*IHB will begin to apply this practice when a normative regulation is developed and there is a reliable and secure technical ability.*

2.3. It is recommended that all members of the corporate management should attend the General Meeting of Shareholders.

*IHB applies this practice. All members of corporate management attempt to attend the General Meetings of Shareholders of the company, except in cases where objective reasons necessitate their absence.*

2.4. Materials of the General Meeting of Shareholders

2.4.1. 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 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.*



2.4.2. 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. The website of IHB contains a Corporate Governance section with Shareholders' Rights subsection and Investors sections with General Meetings subsection.*

2.4.3. Corporate management should aid shareholders, who have the right under law, in placing additional items on the agenda of the General Meeting and proposing additional decisions on items already on the agenda.

*IHB applies this practice. Placing additional items on the agenda and proposing additional decisions on items already on the agenda of the General Meeting is made only in accordance with the provisions of article 223a of the Commercial Act, in line with the practice of FSC. Each invitation calling a GMS of the company contains information about this shareholders' right.*

2.5. Corporate management 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. Minutes of the GMS are published within the statutory deadlines at FSC, Investor.BG, BSE and on the website of IHB.*

3. Equal treatment of shareholders of the same class

3.1. All shareholders of the same class should be treated equally.

3.2. All shares of the same class should give their owners equal rights.

*IHB applies this practice.*

3.3. Corporate management should guarantee enough information is given to the shareholders about the rights, provided by the shares they own.

*IHB applies this practice. The website of IHB contains a Corporate Governance section with Shareholders' Rights subsection and Investors sections with General Meetings subsection.*

4. Consultation between shareholders about main shareholder rights

4.1. Within the limits of the applicable law and according to the company's by-laws, the corporate management must not hinder shareholders, including institutional investors, to consult each other on matters, related to their main shareholder rights in a manner, which does not allow misuse.

*IHB applies this practice.*

5. Controlling rights shareholders' transactions and abusive transactions

5.1. Corporate management must not allow transactions of shareholders with controlling rights, which violate the rights and/or legal interests of other shareholders, including when the controlling shareholder is negotiating with him/her/itself.

*IHB applies this practice.*





## Chapter Four

### INFORMATION DISCLOSURE

1. Corporate management 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 the established policies under item 27, the corporate management should create and support an information disclosure system.

*IHB applies this practice. The company has appointed Investors Relations Director, who ensures the timely disclosure of any significant periodic and incident information about the company, its governance, corporate management, operating activity, and shareholding structure.*

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

*IHB applies this practice. The company's information is published on the website of IHB right after its issue, as also in the bulletin of Investor.BG, FSC and BSE, and is emailed to investors, analysts, journalists and other persons having expressed their interest to IHB. In order to prevent any abuse of inside information, the information is published as soon as possible, within the legally established deadlines.*

4. Corporate management should guarantee that the information disclosure system provides comprehensive, timely, true and understandable information that allows for objective and well-informed decision-making and assessment.

*IHB applies this practice. Information is submitted within the deadlines set by the provisions of POSA and regulations on its implementation, and is prepared in such a way as to give a true and fair view of the company's activities, and to be fully exhaustive as regards any data required by law.*

5. Corporate management should promptly disclose information about the capital structure of the company and agreements that lead to effective control, according to the company's disclosure rules.

*IHB applies this practice. Information about the capital structure is disclosed in the annual financial statements of the company. Information about the persons holding more than 5% of the capital is disclosed on a quarterly basis.*

6. Within the limits of the legislation and in accordance with the by-laws of the company, the corporate management ensures that the rules and procedures under which the acquisition of



corporate control and extraordinary transactions such as mergers and sales of a substantial part of assets are clearly and timely disclosed

*IHB applies this practice.*

7. Corporate management should establish and oversee the implementation of internal rules for preparation of interim and annual reports and proper disclosure of information

*IHB applies this practice. IHB provides maximum comprehensive information in its reports on the activity and presents timely information that is sensitive to the price of the shares. Information is submitted within the deadlines set by the provisions of POSA and regulations on its implementation, and is prepared in such a way as to give a true and fair view of the company's activities, and to be fully exhaustive as regards any data required by law. All information is published on the website of IHB right after its issue, as also in the bulletin of Investor.BG, FSC and BSE, and is emailed to investors, analysts, journalists and other persons having expressed their interest to IHB. In order to prevent any abuse of inside information, the information is published as soon as possible – within the day of gaining knowledge thereof or on the following day. Usually, in order to ensure sufficient time for analysis, IHB publishes the information after the end of the stock exchange trading session. Information is published in Bulgarian and English language, or delayed for a period of time with respect to the English translation when it concerns reports that need time to be translated.*

*The legislation regulating the activity of public companies and information disclosure is monitored constantly, and all new requirements and good international practices are duly complied with.*

8. Corporate management should adopt internal rules which provide timely disclosure of any significant periodic and ad-hoc information about the company, its management, its corporate boards, operational activity and shareholder structure

*IHB applies this practice. The company implements a policy of Industrial Holding Bulgaria PLC for disclosure and distribution of information, which has been published on the website of IHB.*

9. It is recommended that the company should set up and maintain a corporate website as a part of a well-functioning information disclosure system. The content, scope and frequency of information disclosure should be approved by the management. It is recommended that the official information posted on the website should include at minimum:

- basic commercial and corporate information identifying the company;
- up-to-date information about the shareholder structure;
- company's by-laws and adopted policies pertaining to the operations and functioning of the of the company;
- information about the structure and composition of the managing and supervisory bodies of the company as well as basic information about their members, including information about any committees;
- financial reports covering the last ten years;
- materials for upcoming General Shareholders Meeting as well as any additional materials which have been submitted in compliance with the law.



- information about resolutions of the General Meetings of Shareholders of the last 3 years as a minimum, including information about the dividends distributed by the company within that period;
- information about external auditors;
- information about up-coming corporate events;
- information about the shares issued and other financial instruments;
- any information that is material to the company's activities;
- information about shareholders' rights, including sufficient information on the shareholders' right to request the inclusion of matters and to propose resolutions on matters already included in the agenda of the General Meeting under the provisions of Art. 223 (a) of the Commercial Act;
- contact details of the company's Investor Relations Director.

*IHB applies this practice. All information concerning the company and its development is published in Bulgarian and English language on the following website: [www.bulgariaholding.com](http://www.bulgariaholding.com).*

9.1. It is recommended that the companies should also maintain an English version of their corporate website with identical content.

*IHB applies this practice. All information concerning the company and its development is published in Bulgarian and English language on the following website: [www.bulgariaholding.com](http://www.bulgariaholding.com).*

10. The company should regularly disclose information about its corporate governance. The disclosure of corporate governance information should be effected in line with the "comply or explain" principle. This principle requires companies to explain the reasons for not complying with individual provisions of the Code.

*IHB applies this practice. Since 2007 the Comply or Explain Report has been prepared and presented as part of the annual report of IHB.*

11. Corporate management provides disclosure of any material periodic and ad-hoc information about the company through channels that provide equal and timely access to relevant information by users.

*IHB applies this practice. Information is submitted within the deadlines set by the provisions of POSA and regulations on its implementation. Information is published on the website of IHB right after its issue, as also in the bulletin of Investor.BG, FSC and BSE, and is emailed to investors, analysts, journalists and other persons having expressed their interest to IHB.*

## **Chapter Five**

### **STAKEHOLDERS**

1. Corporate management should ensure effective interaction with the company's stakeholders. This category includes certain stakeholders and groups of individuals who are directly influenced



by the company and who are in a position to influence the company themselves, including suppliers, employees, creditors, civil pressure groups and others. The company should identify stakeholders who are interested in its activities, based on their scale and sphere of influence and impact, as well as their role and relationship to the company's sustainable development.

*IHB applies this practice. The company encourages effective interaction with the company's stakeholders in accordance with the principles of transparency and business ethics.*

2. In its stakeholder policy, corporate management must comply with existing laws. The management must guarantee respect for stakeholders' rights, established by law or by virtue of mutual agreement with the company. Good corporate governance practice requires taking into consideration the interests of stakeholders regarding transparency, accountability and business ethics.

*IHB applies this practice. Corporate management maintains effective relations with stakeholders by taking into account their interests and if necessary, by involving them on the resolution of certain issues requiring their position. This practice ensures the balance between the company's development and the economic, social and environmentally friendly development of the environment, in which it operates.*

3. Corporate management should grant stakeholders enough information about their legal rights.

*IHB applies this practice.*

4. It is recommended that corporate management 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 ensure balance between company development and the economic, social and ecological improvement of the environment the company operates in.

*IHB will begin to apply this practice. Pursuant to the Rules of Procedure of the Supervisory Board and the Rules of Procedure of the Management Board, employees of the company or external parties, who are interested in the matters discussed at the meeting, could also be invited to participate in the Board's discussions, without the right to vote.*

5. Corporate management should maintain effective relations with the stakeholders. The company should periodically and in compliance with the legal provisions and good international practices for non-financial information disclosure, inform about economic, social and environmental issues of concern to stakeholders, for example anti-corruption policies; labour policies, policies regulating supplier and client relations; the company's corporate and social responsibility policies; environmental protection and nature preservation policies.

*IHB applies this practice. In compliance with legal provisions and good international practices regarding non-financial information disclosure, the company provides information of economic, social and ecological issues relevant to the stakeholders on its website, Social Responsibility section. Such information is published also in prospectuses on public offering of securities, issued by IHB.*



6. Corporate management guarantees the right of prompt and regular access of stakeholders to relevant, sufficient and reliable information about the company when stakeholders participate in the process of corporate governance.

*IHB applies this practice. The company maintains effective relations with its stakeholders by providing information on the company's activity and up-to-date financial data in accordance with the legal requirements, with the aim to support their correct orientation and decision making.*



## Chapter Six

### INSTITUTIONAL INVESTORS, MARKETS IN FINANCIAL INSTRUMENTS AND OTHER INTERMEDIARIES

1. Corporate management should provide effective interaction between the company and its shareholders - institutional investors as well as regulated markets in financial instruments and investment firms operating in these markets.

*IHB applies this practice. Corporate management holds meetings with every shareholder – institutional investor and with investment intermediaries always where there is an initiative and desire on their part.*

2. Corporate management should use the services of investment firms whose recommendations or actions are based on market information and principles. The same applies accordingly to market operators in markets where financial instruments issued by the company are listed.

*IHB applies this practice. In their selection, the Company is guided by the requirements for professionalism and good reputation of all selected investment intermediaries, with whom it works.*

3. Companies should encourage the engagement of their investment firms and institutional investors in determining the policies and practices of corporate governance.

*IHB will begin to apply this practice.*

4. Institutional investors acting in a fiduciary capacity should disclose their policies on corporate governance, as well as their policies for voting at General Meetings of Shareholders of companies which they had invested in, including the procedures they apply when making decisions about the use of voting rights.

*This practice concerns institutional investors' actions, and not actions of the public company.*

5. Institutional investors acting in a fiduciary capacity should disclose information regarding the effective exercise of their voting rights on their investments. Disclosure should be made at least to their clients in relation to the instruments, owned by each client. If the institutional investor is an investment advisor to an investment company, the disclosure should be made to the regulated market.

*This practice concerns institutional investors' actions, and not actions of the public company.*

6. Institutional investors should provide appropriate human and financial resources for their effective participation in the corporate governance policies.

*This practice concerns institutional investors' actions, and not actions of the public company.*



7. Custodians holding financial instruments on behalf of clients exercise their voting rights in accordance with the guidelines set by the real owners of the instruments. Unless they receive specific instructions by the instruments' owner, the custodians should not exercise the voting rights on financial instruments they hold.

*This practice is not relevant to the actions of the public company.*

8. Institutional investors should be in constant dialogue with the companies whose financial instruments they hold or plan to acquire. While communicating with institutional investors, the companies should comply with the equal treatment of shareholders rules and should not provide information, which would place institutional investors in a privileged position compared to other shareholders.

*IHB applies this practice, by providing information about the company's activity and up-to-date financial data in compliance with all applicable legal provisions.*

9. Institutional investors acting in a fiduciary capacity should disclose how they manage and avoid conflicts of interest and how a conflict of interest would affect the exertion of their fundamental shareholder rights in the companies which they invest in.

*This practice concerns institutional investors' actions, and not actions of the public company.*

10. Companies should require disclosure and limitation of conflicts of interest and their disclosure by authorized advisors, analysts, brokers, rating agencies and others who provide analysis or advice. This requirement applies if such conflicts of interest could jeopardise the integrity and objectivity of the analysis or advice or can be used by investors when making investment decisions.

*IHB applies this practice. For the purpose of concluding a service contract with analysts, advisers, brokers and others, express provisions are included for the avoidance and respectively, the disclosure and limitation of conflicts of interests.*

11. Companies whose financial instruments are admitted to trading in a jurisdiction other than the one, which they are established in, should clearly disclose their applicable corporate governance rules.

*IHB will begin to apply this practice, if it is allowed to trading in a jurisdiction, other than that, in which it has been incorporated.*

12. In case of dual listings, market operators should disclose and document criteria and procedures for recognising the listing requirements of the main market.

*This practice is not relevant to the actions of the public company.*

13. Regulated markets in financial instruments, multilateral trading facilities and other markets should establish such mechanisms for collecting, identifying and disclosing prices, which would allow investors to examine and evaluate their investments in corporate financial instruments following market principles. The same information should be provided for the issuer as well.

*This practice is not relevant to the actions of the public company.*