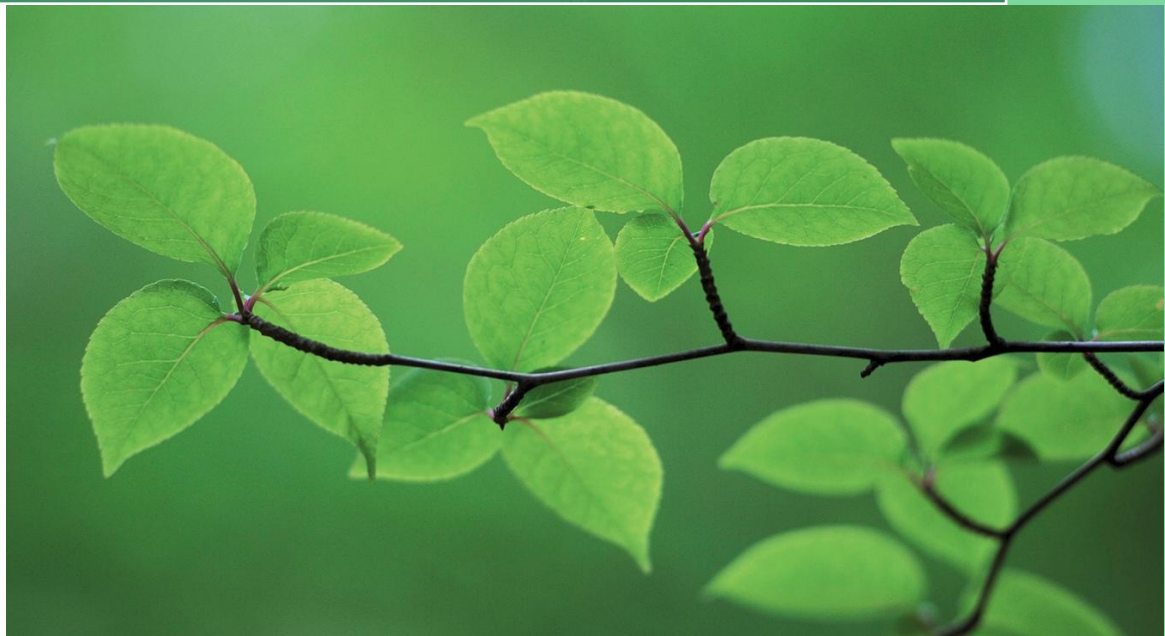


2012

COMMUNICATION ON
PROGRESS REPORT



Company:

VAPTSAROV HOLDING AD



COMMUNICATION ON PROGRESS REPORT

NAME OF THE PARTICIPATING COMPANY:

VAPTSAROV HOLDING AD

COUNTRY:

BULGARIA

SECTOR:

HEAVY MACHINE BUILDING INDUSTRY

REPORTED PERIOD:

30 September 2011 – 30 August 2012

CONTENT:

1. Statement of continued support for the Global Compact
2. Description of practical actions taken to implement the Global Compact principles
 - 2.1 Human Rights
 - 2.2 Labour Standards
 - 2.3 Environment
 - 2.4 Anti-Corruption
3. Sharing the COP with the company's stakeholders

1. Statement of continued support for the Global Compact

Sofia, January 2010	София, януари 2010 г.
<p data-bbox="188 504 774 593">Statement of Continued Support for the UN Global Compact</p> <p data-bbox="188 705 782 1120"><i>We at Vaptsarov Holding AD, Bulgaria, firmly believe that for a company to be successful it should not be only concerned by economical gain. We attach highest priority to always maintaining our status of a good corporate citizen and to advance into reaching new moral and spiritual levels: the ever higher social responsibility. This can be only materialized through very demanding requirements for personal integrity, values, mission and vision of our people.</i></p> <p data-bbox="188 1153 782 1344"><i>We at Vaptsarov Holding AD recognize UN Global Compact' principals as being the guidelines towards reaching this aim and are committed to follow and promote them on a sustainable basis.</i></p> <p data-bbox="188 1377 646 1478">B. Bonev Chairman of the Supervisory Board</p>	<p data-bbox="805 504 1396 638">Заявление за неизменна подкрепа на принципите, изложени в Глобалния договор на ООН</p> <p data-bbox="805 694 1396 1120"><i>За „Вапцаров Холдинг” АД, България, успешното развитие не означава само икономическа изгода. Висш приоритет на дружеството е да поддържа неизменния си статут на добър корпоративен гражданин и да овладява нови духовни висоти - все по-голямата обществена отговорност. Това може да се постигне само, когато налице са много строги изисквания за лична неподкупност, морални ценности, чувство за мисия и далновидност.</i></p> <p data-bbox="805 1153 1396 1344"><i>При постигането на целта „Вапцаров Холдинг” АД се ръководи от принципите на Глобалния договор на ООН, които решително следва и чието прилагане неизменно насърчава.</i></p> <p data-bbox="837 1366 1284 1467">Б. Бонев Председател на Надзорния съвет</p>

During the period 2011 – 2012, Vaptsarov Holding (VH) team continues to develop its activities following the UN Global Compact principles.

VH is pleased to provide information in this Communication on Progress Report 2012.

2. Description of practical actions taken to implement the Global Compact principles

VH CONTINUED SUPPORT TO THE 10-TH PRINCIPLES

The management and employees of VAPTSAROV HOLDING (VH) are committed to adopting and promoting sustainability within its industry and communities (see Sections 1 and 3).

VH states its contribution to business sustainability, as follows:

<p>TRANSFORMS THE TEN PRINCIPLES INTO MANAGEMENT STRATEGIES AND POLICIES FOR ITS ACTIVITIES AND PROCESSES</p>	<p>IMPLEMENTS ACTIONS WITHIN HUMAN RIGHTS, LABOUR STANDARDS, ENVIRONMENT AND ANTI-CORRUPTION AREAS</p>	<p>COMMITTS TO PROVIDE NEW OPPORTUNITIES FOR IMPROVEMENT AND CONTINUOUS DEVELOPMENT AND SATISFACTION OF ITS EMPLOYEES, BUSINESS PARTNERS AND COMMUNITY</p>
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VH PRACTICAL ACTIONS

The practical actions of VH proving the applications of principles, are shown for the respective areas (see sections 2.1; 2.2; 2.3; 2.4) of Communication on Progress Report.

VH DOCUMENTS

Description of UNGC principles application within the organizational operations and activities

The table below shows in what ways and the VH documents where the principles of the specific areas of the Communication on Progress report are expressed:

<p>2.1 HUMAN RIGHTS: Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and Principle 2: make sure that they are not complicit in human rights abuses</p>	<p>DOCUMENTS and RESOURCES Code of Ethics Training Programs Social activities Volunteering initiatives Human Resources Department Ethical Committee Working Conditions Committee</p>
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<p>2.2 LABOUR STANDARDS: Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: eliminate discrimination in respect of employment and occupation.</p>	<p>DOCUMENTS and RESOURCES Code of Ethics Training Programs Social activities Volunteering initiatives Human Resources Department Health and Safety Expert Working Conditions Committee Ethical Committee</p>
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<p>2.3 ENVIRONMENT: Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; Principle 9: encourage the development and diffusion of environmentally friendly technologies.</p>	<p>DOCUMENTS and RESOURCES Management policy for the Integrated Management System Business plan Training Programs Ecology Expert Environmental Working Groups</p>
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<p>2.4 ANTI-CORRUPTION: Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.</p>	<p>DOCUMENTS and RESOURCES Financial Rules and regulations Purchase rules Associated persons and possible conflict of interests Anti – corruption policy Code of Ethics Head of Administration</p>
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The content of the present communication on progress is based on issued and distributed to the employee’s document: Rules for preparation of COP 2012, activities and responsibilities for information collection. These rules are prepared for consecutive year in order to provide transparency of all activities related to VH sustainable development and to control the progress on implementation of UNGC principles.

2. 1 HUMAN RIGHTS

VH POLICY

Our people are the basis for success of our businesses.

ANY FORMS OF DISCRIMINATION ARE NOT TOLERATED IN ACCORDANCE WITH THE VALID CODE OF ETHICS

ENCOURAGEMENT AND DEVELOPMENT OF OUR STAFF IS PART OF VH CORPORATE CULTURE

VH DECLARES TO RESPECT AND SUPPORTS IN ITS ACTIVITIES THE HUMAN RIGHTS AND INTERNATIONAL HUMAN RIGHTS CONVENTION

VH RESPONSIBILITY

Code of Ethics:

December 2011, revised Code of Ethics, approved with Protocol №28 – Management Board and №24 – Supervisory Board. The Companies from Vaptsarov's Group exalt the following values: honesty, integrity, loyalty, punctuality, precision and orientation of achieving results.

Social benefits for the employees

1. Dental care – VH provides free dental service to its employees.
2. Medical care - VH provides constant medical service by a nurse equipped with first aid kit, blood pressure apparatus and medicines.
3. Canteen – VH provides vouchers for the meals to its employees in the company based canteen offers healthy food meeting the specific needs of all employees.
4. Company transport – VH provides free shuttle for its employees to and from the working place.

Monthly Human Resources analysis

1. Analysis of absence – sickness; maternity, paid annual holiday, not-paid holiday
2. Analysis for sickness absence – kind of sickness, number of personnel, number of average days lost by sickness.
3. Analysis of personnel by age, education, etc.

VH TRAININGS

Educational projects

1. External trainings – conducted by external companies. Trained 90 employees from departments: Planning and Project Management, Technology, Production, Human Resources, Health and Safety Expert, Quality Assurance, Finance, Design.
2. Internal company trainings on topics – conducted by head of departments: Production, Health and Safety Expert, Quality Assurance, Planning and Project Management, Legal Advisors. Trained 97 employees from departments: Project Management, Planning, Technology, Purchasing, and Production.

Trainings performed during the reported period

EXTERNAL TRAININGS
Training topic
Seminar: training on occupational health and safety
Robin Sharma Seminar: Lead Without A Title
Exploring the business's possibilities through Systematic Innovations with TRIZ
Principles of the modern purchasing
International standards for finance reports
Annual training on Occupational Health and Safety conditions of the representatives of the Working Conditions Committee
Annual training on Occupational Health and Safety conditions of the officials who managed the working processes and conducts instructions to the representatives of the Working Conditions Committee
Initial training on Occupational Health and Safety conditions of the new representatives of the Working Conditions Committee
Process Re- engineering
Computed Radiography and Direct Radiography
EN 287-1:2011- New requirements for Qualification test of welders - Fusion welding. New aspects in the normative requirements for non-destructive testing. Harmonized European and International standards.
Technical seminar on topic – new products of Sandvik Coromant
Training on topic – storage of hazardous chemicals and substances according to the requirements of Normative for the order and rules for storage of hazardous chemicals and substances
Training on Visual Testing

INTERNAL TRAININGS
Training topic
Training for execution of emergency plan according to the Law for protection of people on emergency and disasters on the following topic: Activities of the Headquarters for coordination at rescue works and emergency restoration works on the territory of the organization in situation of high-level earthquake
Training on Microsoft Project – project base line in Microsoft Project
Training on integrated procedure for document amendments and review of rules for data input into ERP
Training on working instruction on the order, requirements and main activities in welding process in order to provide the necessary quality of welded joints
General standards for visual inspection of welded joints
VH General Commercial conditions in Sales and Purchase
Welding Procedures Specifications (WPS). Obligations of welder on keeping the welding procedures. Handling with welding consumables (choice, storage, use/
Training of personnel in electrical safety to adopt qualification group

VH ENGAGEMENT

Motivation of personnel

- **January 2012:** Performed research of VH personnel on topic: Evaluation employee satisfaction
- **February 2012:** Initiated project for issue and distribution of internal information Bulletin. The goal of the bulletin is that every employee to be informed about the business situation at the company for the reported period. Established and applied a system for feedback and suggestions.

Human Resources Management System (HRMS)

Implementation of Human resources management system – the system includes training and development of personnel evaluation, reward and stimulation, career promotion, encouragement and sanction of personnel.

1. Implementation of criteria for evaluation and development:
 - Transparency at the evaluation process,
 - Engagement of participants in the process,
 - Communication of criteria to project teams,
 - Discussion and explanation,
 - Proposals accepting and
 - Accepting of final criteria for professional development. The criteria are objective and can be monitored and registered directly, daily and on monthly basis.
2. The criteria define the professional level of employees and on their basis is evaluated the professional performance of employees. In this way is outlined the career development path and also linked to level of payment. This link shall be implemented step by step as the goal is at the begging of next year the company to achieve this standard.

Project Re-engineering of business processes (Business Process Reengineering):

The project aim is to improve the Model of business control by using the systems approach: production and business processes are considered as part of the system "industrial enterprise" on the one hand and a set of elements and relationships between them, on the other.

According to the methodology, the main activities performed in the design process include:

- Development of a detailed model for the control of the business. Definition of the structure and content of the main and auxiliary business processes;
- Development of an organizational model of business structure and functional map of the roles and responsibilities of business processes
- Design the architecture of the main and auxiliary business processes for all the functional and architectural requirements and other aspects arising from the control model of business processes and procedures.

VH COMMITMENT

Volunteering initiatives

- **September, 2011:** Participation in the event Open doors day "EU invests in Pleven". VH was rewarded with Certificate for Volunteering Support by Baliz Association.
- **February 2012:** Volunteering of VH employees in campaign for support of people after the flood disaster in the southern Bulgarian village of Biser. We helped as give directly to the people 200 rubber boots, 100 t-shirts, 30 sacks of clothes and 25 boxes with canned food.

2. 2 LABOUR STANDARDS

VH POLICY

Company policy on Labour

The management of VAPTSAROV HOLDING AD has declared personal engagement with health and safety (HS) policy stated at the Management Policy. The document has been periodically revised and accessible for review and placed on visible location.

MAIN RIGHTS OF THE WORKERS: FREE CHOICE OF WORK, NO FORCED LABOUR: NOBODY COULD BE EMPLOYED AT VH AGAINST HIS/HER WILL OR TO BE FORCED TO WORK.	CHILD LABOUR ABOLITION: WORKERS BELOW 16 YEARS OF AGE ARE NOT HIRED AT VH. YOUNG WORKERS BETWEEN 16- 18 YEARS OLD ARE NOT HIRED THUS THERE IS NO RISK OF ACCIDENTS OF IMPOSING YOUNG WORKERS TO DANGEROUS WORKING CONDITIONS. (SEE ALSO THE CODE OF ETHICS)	WORKING TIME AND ORGANIZATION OF WORK: IN ACCORDANCE WITH APPROVED COMPANY RULES
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VH RESPONSIBILITY

Health and safety working conditions

The VH policy on Labour standards is focused on risk prevention of employees and on improvement and sharing the best practices with suppliers and other business partners. In order to assure the policy, VH established the following objectives:

1. Focusing on prevention and taking of action to prevent occupational hazards
 - There is a Working Conditions Committee (WCC) at VH in accordance with the requirements of the Health and Safety Working Conditions Act. WCC conduct meetings in order to develop the programme for working place risk assessment. The members of WCC actively participate in development and evaluation of professional risks and working place risk assessment.
2. Care for health and safety of employees and visitors
 - VH has signed a contract with an independent labour safety organization for annual preventive examinations of the employees. This organization also actively participates in evaluation of working place risk assessment.
3. Compliance with applicable legal and internal requirements
 - Implemented procedure for Monitoring and evaluation the compliance of OHS management system with the normative documents and standards.

4. Provision of necessary employees training and enhancement on personal responsibility
 - Instructions in HS are conducted by authorized people, as well as internal and external trainings of VH personnel
5. Active cooperation with authorized organization in the field of occupational health and safety
 - HS Expert actively cooperate and maintain relevant communications with local authorities in HS and Labor officials – Labour Inspectorate office in Pleven

VH INITIATIVE'S PARTNERSHIP

Social activities

- **January 2012:** Participation in forum "Corporate Social Responsibility" organized by Higher School of Insurance and Finance, CSR Bulgaria, Bulgarian Global Compact and Intertek Moody
- Participation in Annual Report of Global Compact Network, Bulgaria
- **March 2012:** VH traditionally participated in "Manager for a day 2012" - initiative organized by Junior Achievement Bulgaria
- VH was honored for its contribution to gender equality and the participation of women in decision-making. The ceremony was hosted by the Deputy Minister of Labour and Social Policy

Participation in project "Increase of youth employment through their permanent inclusion on the labour market".

The project is implemented with the financial support under Operational Program "Human Resources Development", co-financed by the European Social Fund. 2 young people were welcomed in VH and trained within 6 months in Finance department. One of them has been hired permanent at the company.

VH LABOUR CONDITIONS INDICATORS

VH data and statistics for the reported period

1. No registered working accidents or injuries
2. Training and seminars on HS: indicated in trainings table

November 2011: At VH is implemented Occupational Health and Safety Management System according to OHSAS 18001:2007 standard

The Occupational Health and Safety Management System (OHSMS) of VAPTSAROV HOLDING AD is developed in conformance with the requirements of OHSAS 18001:2007 standard. OHSMS is developed and successfully implemented as a part of company's integrated management system (IMS).

2.3 ENVIRONMENT

VH POLICY

Company policy on Environment protection

The management of VAPTSAROV HOLDING AD has declared personal engagement with environmental (E) policy stated at the Management Policy. The document has been periodically revised and accessible for review and placed on visible location.

MANAGEMENT OF COMPANY ACTIVITIES AND THEIR RESULTS THAT CAN HAVE AN SIGNIFICANT IMPACT ON ENVIRONMENT	ENCOURAGEMENT OF COMPANY PERSONNEL TO DEMONSTRATE IN ITS DAILY ACTIVITIES PROFESSIONALISM AND RESPONSIBILITY TO PROTECTION OF ENVIRONMENT	VH DECLARES COMPLIANCE WITH ALL APPLICABLE LEGAL REQUIREMENTS ON ENVIRONMENT
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VH RESPONSIBILITY

The company determines the activities and their results that can have a significant impact on environment and established objectives in order to be in compliance with the ecology norms.

1. Improvement of working environment and care for environment protection
 - Monitoring and measurement of key environmental factors (dust, gas emissions, noise, paint dissolvers emissions). The data for the reported period are indicated in the table.
2. Compliance with applicable legal requirements
 - Available sources for to-date information about changes in government regulations on environment protection
3. Striving to economy efficient use of natural resources
 - For serial reported period, VH applies the rule information to be presented in a certain way, by using of equal measuring units in order to be compared one reported period with another.
4. Provision of necessary training of employees
 - Information brochure for the standards under which the company is certified has been prepared: ISO 9001; ISO 14001; OHSAS 18001. The objective of this brochure is to be unified the existing materials and to be distributed to the employees in readable way.
5. Active cooperation with regulatory bodies, local authorities, society and all interested parties at solving problems related to environment
 - Implemented procedure for HS and E maintain of information regarding joint activities with external organizations doing works on VH's site. During the reported period there are no inputs data for complaints regarding ecological problems arise.

VH ENVIRONMENTAL INDICATORS

VH data and statistics for the reported period

The data on natural gas, electricity and gas composites for welding consumption are regularly reported and analyzed. Compared to previous reporting period there is no significant increase or decrease in the energy resources consumption.

Environmental impact activities for improvement:

- Reduced dust emissions
- Measurements of flue gas emissions in the heat chamber – CO, NO, SO₂
- Non-organized dissolver emissions in accordance with approved Dissolver Management plan
- The mixing of hazardous and non- hazardous wastes is prohibited

As per the legal requirements on hazardous chemical substances – VH is a ‘consumer in the chain’ and as such the obligations are: to demand and register safety data sheets from the manufacturers and the importers of the chemicals, and all employees working with the respective chemicals should be instructed.

As per the legal requirements on waters – VH has no obligations. VH has a contract with a state company for water treatment. The state water company regulates the need of measuring the admissible degree of water pollution regarding the physical, chemical and industrial indices.

VH ECOLOGY INITIATIVES

- **From 9 to 12 November 2011:** Participation in Ecomondo - the largest international trade in the field of renewable energy and sustainable development
- **From 28 to 30 March 2012:** Participation in the International Eco Forum. The exhibition is specialized in processing of waste, recycling, eco-energy and environment. Participation in the Forum "Energy recovery from waste"
- **From 04 to 08.06.2012:** Participation in Green Office Week 2012 by Cleantech
- **12.05.2012:** Participation in national campaign - To clean up Bulgaria in one day

November 2011: At VH is implemented Environmental Management System according to ISO 14001:2004 standard

The Environmental Management System (EMS) of VAPTSAROV HOLDING AS is developed in conformance with the requirements of ISO 14001:2004 standard.

EMS is developed and successfully implemented as a part of company’s integrated management system (IMS).

Data with VH's energy resources consumption indicated in the table:

September 2010 - August 2011			September 2011 - August 2012		
Energy resource	gJ/m3		Energy resource	gJ/m3	
Natural Gas	9278		Natural Gas	8653	
Electrical Power	9720		Electrical Power	9220	
Gas composites	1105		Gas composites	1160	
total	20103		total	19033	
Non hazardous wastes			Non hazardous wastes		
	Tons			Tons	
metal turnings	391		metal turnings	470	
non ferrous metals	18		non ferrous metals	2	
scraps	20		scraps	0	
total	429		total	472	
Hazardous wastes			Hazardous wastes		
	Tons			Tons	
other	0 *1		other	0 *1	
gear oil	4 *2		gear oil	2.14 *2	
total	4		total	2.14	
Environmental factor	Conformance	Main source of pollution	Environmental factor	Conformance	Main source of pollution
Dust	Yes	blasting chamber	Dust	Yes	blasting chamber
Noise	Yes	production buildings	Noise	Yes	production buildings
Waste waters	Yes	industrial	Waste waters	Yes	industrial
Paint dissolvers - organized emissions	Yes	emissions	Paint dissolvers - organized emissions	Yes	emissions
Paint dissolvers - non organized emissions	No	emissions	Paint dissolvers - non organized emissions	Yes	emissions
Flue gas emissions	Yes	heat	Flue gas emissions	Yes	heat
Remarks: *1 temporary storage before handling over *2 handling over to authorized supplier VAPTSAROV HOLDING AD			Remarks: *1 temporary storage before handling over *2 handling over to authorized supplier VAPTSAROV HOLDING AD		

2. 4 ANTI - CORRUPTION

VH POLICY

Policy on transparency of activities

PREVENTION IN ACTIVITIES WITH POSSIBLE DEVELOPMENT OF ANTI-CORRUPTION PRACTICES	PREVENTION OF CONFLICTS OF INTERESTS AT CONTRACTING	PROVISION OF TRANSPARENCY FOR ALL ACTIONS OF COMPANY EMPLOYEES
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VH ANTI-CORRUPTION ACTIVITIES

Anti-corruption measures

1. In order to reduce and prevent the development of corruption practices for the current machine's maintenance by external companies, order and organization are created
2. Created order and organization on treatment of metal scraps in order to reduce and prevent the development of corruption practices.
3. Started the procedure to improve conditions in the canteen, which includes announcement of tender with VH requirements to the participating external companies.
4. In order to prevent documentary violations under the Law for protection of classified information and no longer needed, all records of classified information have been declassified or destroyed with the permission of State Commission on Information Security (SCIS) Sofia.
5. Performed competition for selection of courier services, up to date used four companies without follow-up activities and evaluation of the most profitable price, in that case is possible to arise corruption activities on the part of the assignor (company employees).

VH JOINT EFFORTS

VH coordinates its efforts on prevention and fight against corruption as it interacts with organizations. VH management takes part in key meetings, conferences and other publicly important events.

- **23.03.2012, Sofia:** Participation of the Chairman of the Supervisory Board in Transparency International initiative "Integrity Pact in Public Procurement: New Approach for Corruption Prevention in Bulgaria".

3. Sharing the COP with the company's stakeholders

This Communication on progress report and enclosures are published on VAPTSAROV HOLDING AD'S official web site

At: http://vap.bg/global_compact.php

Contact person:

Mariya Petrova

Quality Management System and Improvements Manager
mariya.petrova@vap.bg

Contact information:

T: +359 64 882 111

F: +359 64 882 117

M: +359 884 311 374

E: office@vap.bg

A: 6 Grivishko Shose str
5800 Pleven, Bulgaria

www.vap.bg

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