

**TO
THE GENERAL MEETING OF
SHAREHOLDERS OF
IH BULGARIA AD**

**ANNUAL REPORT
ON THE ACTIVITY OF THE AUDIT COMMITTEE
OF IH BULGARIA AD IN 2020**

This annual report on the activity of the Audit Committee (the AC) of IH Bulgaria AD (the company, the Holding, IHB) for the financial year 2020 has been prepared on the grounds of the effective Statute (Regulations on the Activity) of the AC, the company's Articles of Association, and in compliance with Article 108, paragraph 1, item 8 of the Independent Financial Audit Act (IFAA) stipulating that the AC shall report on its activity to the appointing body – the General Meeting of Shareholders (GMS).

The AC of IHB was elected for the first time by the GMS in 2009 and was last re-elected in 2019 for a new three-year mandate.

In accordance with the provisions of IFAA and the Statute (Regulations on the Activity), the AC is entrusted with the following main functions:

1. To monitor the financial reporting process of the Company and draw up recommendations and proposals to ensure its effectiveness;
2. To monitor the effectiveness of the internal control system, risk management system and the internal audit activity concerning the Company's financial reporting;
3. To monitor the statutory audit of the annual financial statements, including its carrying out, documenting, the audit findings, notes and recommendations of the independent auditor, and the reports issued by the independent auditor;
4. To verify and monitor the independence of the registered auditor of the Company in accordance with the requirements of the law and the Code of Ethics for Professional Accountants, including the appropriateness of the non-audit services provided by the auditor;
5. To bear responsibility for the registered auditor selection procedure and to make recommendations for their appointment;
6. To inform the Management Board and the Supervisory Board of the Company of the results of the statutory audit and to clarify how the statutory audit has contributed to the reliability of financial reporting, as well as the function of the AC in this process.

In monitoring the financial reporting process, the AC works in cooperation with the Financial and Accounting Department and the Internal Audit Unit of the Holding, by directing and controlling the operations of the latter. In December 2020, in the conditions of an emergency epidemic situation and a second lockdown, the AC members had got acquainted online with the results of the out-of-plan inspections

carried out in Privat Engineering, KLVK, the shipping company Tirista and IHB Metal Castings. The planned inspections of IHB Shipping Co., Bulgarian Ship Register and IHB Shipdesign were postponed to 2021. The thematic internal audit of KRZ Port Burgas and Odessos PBM, which was cancelled due to a change in management's intentions, had been replaced by a planned 2021 process review of the two port terminals with the aim to find options for their optimisation and digitization. Although the 2020 internal audit plan was not fulfilled, the work done by the Internal Audit Unit was the maximum possible considering the complex epidemic situation and restrictions imposed.

The AC is of the opinion that in its operations the Internal Audit Unit follows the approved operational rules, the Group's internal control systems are effective, and the IHB management has created the necessary suitable control environment and supports the internal control, by exercising control on the implementation of the audit recommendations. It has been discussed and approved the draft plan for conducting audits of the Group companies in 2021, which is designed to correspond to the main directions in the activity of the Internal Audit Unit; the risk-based approach has been applied consistently in determining the entities to be audited as well as process audits. The AC supports the management's decision to include in the forthcoming inspections an analysis of the marketing activities of the inspected companies and an assessment of how to assist them in this area. The decision is prompted by the restrictions that limit the ability of entities to have direct contact with their counterparties, including to participate in traditional exhibitions and fairs. Due to the restrictions, a remote inspection of the Bulgarian Ship Register is envisaged. The outcomes will be analysed and it will be assessed whether the method is suitable for application in the larger companies as well. Actions will be taken according to the development of anti-epidemic measures. If necessary, targeted technical inspections will be performed with the involvement of colleagues from the Group's team possessing proper skills and professional experience, who will extend the scope of the internal audit beyond pure financial audits.

In December 2020, together with the auditors from AFA OOD (AFA), the AC conducted a joint review of the results of the interim audits of the Group companies, as well as the scope and schedule of the annual audit. The following were communicated: the auditors' strategy regarding the environment; the key business processes and internal control systems of the Holding and the Group companies; the key audit areas, such as an identification of material risks, including the risk of misstatement of revenue from contracts with customers at the level of subsidiaries due to overstating or reporting revenue in a wrong reporting period; the risk of material misstatements due to fraud or error, as well as of wrong reporting and disclosure of the related party balances; the assessment of the going concern principle-assumption at the Group level; the compliance with the regulatory requirements; possibilities to overcome controls set by management; significant judgments, estimates and sources of uncertainty in the preparation of the financial statements. Potential key audit matters (KAM) were formulated in the auditor's reports on the separate and consolidated annual financial statements, which were consistent with those of the previous year: an assessment of the financial assets' recoverable amounts (investments in and loans to subsidiaries); and of non-current assets, including goodwill, in the "maritime transport" and "shipbuilding and ship repair" operating segments. No changes are envisaged in the basis and the materiality level for the audit of both the separate and consolidated financial statements compared to those applied in 2019. No significant findings on material qualitative aspects of the company's accounting practices, including accounting policies and estimates that need to be communicated, were found. No cases of non-compliance with legal and other regulatory requirements to be reported to the AC were found, and the AC had not become aware of such while

performing their main functions. No significant omissions in the internal control environment at the Group level were found; no cases of fraud or suspicion of fraud, and areas for management recommendations as a result of the interim audits, were identified. No related parties or significant transactions with related parties, which management had failed to disclose to the auditors, were identified. No events or circumstances had been found that may cast doubts as to the ability of IHB and the group companies to continue as a going concern in the foreseeable future, except for IHB Electric (deleted) the final liquidation balance sheet of which was drawn up as of 30 November 2020. No problems that required urgent action were identified. All matters were commented on with the companies' and the Holding's management in a timely manner, including AFA and the AC were informed of the arrest of one of the ships from the own fleet and of the actions taken to defend the Group's interests. The audit team was subject to review aiming at verifying the independence of its members. The Declaration of Independence was approved in accordance with Article 67 of IFAA.

The AC, jointly with management and the auditors, scrutinised the negative effects of the second wave of COVID-19 on entities' business activities. The key risks to which IHB and its Group companies were exposed in 2020 were examined, as well as the measures taken by the management of the Holding and its subsidiaries to manage and limit those risks. The AC examined also the trends of development of the operating segments and investment portfolio entities, and the more important annual audit procedures to be carried out. The major investment projects of the Group were discussed as well. The AC was also informed of the changes in the management of the two holdings that were effected in the last month, as also of the traditional annual meeting with investors scheduled for December 2020 that was cancelled due to the restrictions imposed.

In March 2021, under the conditions of a third pandemic wave in the country, an online meeting with AFA was held and the results of the annual audit of the separate financial statements of IHB were communicated. The essential audit areas defined in the interim audits were discussed again, as a result of which one KAM, consistent with those identified during the planning phase and in the previous year, was determined: the recoverable amount of investments in and loans to subsidiaries in the "maritime transport" and "shipbuilding and ship repair" operating segments. No other areas had been identified in the financial statements of IHB on which the crisis caused by the spread of the COVID-19 virus would have a direct and significant impact and effects. IHB assessed the existence, materiality and prospects of any effects on its receivables from and investments in the enterprises operating in these segments, which might arise out the social and economic consequences of the pandemic, as well as the need to take them into account in making assumptions and estimates, and determining parameters and estimated cash flows of impairment test models. Together with its experts, the audit team assessed the adequacy of the IHB's analysis of the impact of the crisis on its net investments, all aspects of the process of determining their recoverable amount and took into account the effects of the pandemic. Impairment tests were carried out, as a result of which an impairment loss of BGN 24,507 thousand was recognised in respect of the investment of IHB in Privat Engineering; no impairment of receivables on loans granted was found. The adjustment made in 2020 in the impairment test models employed in respect of the shipping companies as a result of the changed business intentions of the group's management was discussed with the AC. AFA had reviewed and agreed with the adjustment, which was in line with the latest amendments to IFR, aimed at bringing the standards closer to the entities' business practices. The auditors found no bias or problems and their opinion regarding the significant estimates was that the management had made reasonable and substantiated assumptions. The

necessary disclosures were made in the separate financial statements of the Holding. No significant unusual transactions and new related parties were identified, except for those already disclosed. No irregularities, including fraud involving the financial statements or cases of actual or alleged non-compliance with applicable laws and regulations were found. There were no significant findings arising from the statutory audit that had been discussed or had been the subject-matter of correspondence with governing bodies. The AC also did not reveal any inconsistencies and / or frauds, as well as other similar matters to be communicated. The report on the implementation of the remuneration policy, prepared for the first time in 2020, was in compliance with the legal requirements. A non-modified audit opinion was expressed in the auditor's report on the separate financial statements of IHB. The independence of the audit firm, as also that of all its partners and employees involved in the audit of the Holding, had been reaffirmed.

In addition to the topics subject to discussion, the auditors drew attention to the partial annual stock-taking of inventories made in two of the production enterprises operating in the "machine building" operating segment, which AFA viewed as a limitation of scope of their mandatory audit procedures that must be performed in the audit of these companies. Although the partial stock-taking of inventories was necessitated by the high growth in staff sickness as a result of the spread of COVID-19, this limitation would result in modification of the audit opinion on the separate financial statements of these enterprises, and respectively on the consolidated financial statement. The Group's management had analysed various options for counting physical inventory and after discussing the specific situation with the auditors, it was decided that the review of inventories be partial in order to preserve the health of the other team members and enable the enterprises to continue to perform their main activities. No circumstances were identified that could affect the form and content of the audit reports for the other subsidiaries. The AC got acquainted with the preliminary results of the Group for 2020 and the more important indicators for its activity, the main accents in the development of the enterprises, the status of the already commenced and of some of the more significant forthcoming investment projects. The main risks to which the Group was exposed and the impact of the pandemic on them were reassessed.

The AC also got acquainted with the significant events that had occurred after the reporting date and were disclosed in the separate financial statements concerning transactions with treasury shares, dividends voted by the subsidiaries the financial statements of which had already been audited, and the deletion of IHB Electric AD from the Commercial Register. All matters had been communicated in an Additional Report that was submitted to the AC in compliance with the requirements of Article 60 of IFAA; the Report was prepared in accordance with the applicable standards of auditing and the provisions of Article 11 of Regulation (EU) 537/2014 (the Regulation).

In end of April 2021, due to the continuing epidemic situation declared in the country, the auditors discussed online with the AC the significant results from the audit of the Group's consolidated financial statements for 2020, systematised in key audit areas identified by AFA and discussed at previous meetings as well. The KAM was one, consistent with that identified during the planning phase and in the previous year, namely: the assessment of the recoverable amount of non-current assets, including goodwill, in the "maritime transport" and "shipbuilding and ship repair" operating segments. No significant transactions and related parties were identified that were not previously disclosed to the auditors. No significant findings were identified regarding significant qualitative aspects of the Group's accounting practices, including accounting policies, estimates and disclosures in the consolidated financial statements that should be

commented on. The impairment, estimates and methods employed were reaffirmed by the auditors and no significant gaps or inconsistencies were found in the financial reporting of the individual entities. Complete and appropriate disclosures were made. No significant unadjusted audit differences were found. There were no other matters concerning the statutory audit that, in AFA's professional opinion, were relevant to the oversight of the financial reporting process. The auditors stated that they were not aware of any irregularities, including fraud, involving the financial statements that should be communicated with the AC; likewise, the AC also had not identified any such irregularities while performing its functions, beyond the inspections of some of the subsidiaries carried out by the regulatory authorities, the recommendations made, the sanctions imposed for established deviations from the norms and their implementation by the management of these companies, all disclosed in the letters by the Group's management bodies. These recommendations and sanctions were immaterial. During the final audits, no significant weaknesses had been identified in the internal control of the Group companies. The main features of the Group's internal control and risk management systems related to the financial reporting process supported the prevention, or detection and correction, of material misstatements. Management has no plans or intentions to significantly reduce the scope of operations and / or transform the Group in the foreseeable future, except for IHB Electric (deleted) and Emona Ltd. due to the forthcoming voluntary liquidation procedure of the company following the sale of its main asset – the ship Emona. The auditors have not identified events and circumstances that could cast doubts as to the ability of the other companies to continue to operate as going concern.

Due to the partial stock-taking of inventories in the “machine building” operating segment reported at the previous meeting, a qualified opinion is expressed in the auditor's report on the consolidated financial statements. The specifics of production activities in this segment make the annual stock-taking of raw materials, consumables and finished products an important component of the process of annual closing of accounts and an important control procedure in the preparation of the consolidated financial statements. Therefore, AFA were not able to satisfy themselves, through the application of alternative audit procedures, of the inventory quantities as well as of the quantities and valuation of expenses for materials reported for the year of 2020 and accordingly, they were not able to determine whether adjustments might have been necessary in respect of the closing balance of inventories presented in the consolidated statement of financial position and, respectively, adjustments to the expenses for materials and profit for the year reported in the consolidated income statement for 2020. The audit opinion expressed is in accordance with the Additional Report submitted to the AC pursuant to Article 60 of IFAA.

The AC got acquainted with the development of the Group from the beginning of 2021: the claims to the company-owner of the arrested ship, which were settled using financing through a contracted revolving bank limit for loans, bank guarantees and letters of credit; the renegotiated terms and conditions of the syndicated loan; the photovoltaic power plant built in ZMM Nova Zagora that was put into operation to satisfy the entity's own needs, and the repaid liabilities to related parties. The non-systematic risks specific to the operating segments and companies in IHB's investment portfolio were reviewed again. The development trends of each subsidiary in 2021 were discussed, as well as management's expectations and assessments of facts, circumstances and risks with their probable effects on the Group's future business and its assets and liabilities.

There are no Group companies with discontinued or significantly reduced activity. Significant contracts with key suppliers and / or customers have not been terminated. The Group has sufficient financial resources to meet its liquidity needs. The AC shares the management's view that the economic environment is still high risk and supports management's efforts to constantly monitor the emergence of new risks or an increase in existing ones, as well as the negative effects of the pandemic on business activities. The group respects the established organisation and implements all necessary measures to ensure the continuity of work processes and to protect the health of employees, including vaccination is encouraged. The measures are subject to periodic reviews and are updated to reflect any changes in business environment and restrictions imposed. The AC is of the opinion that the separate and consolidated financial statements of IHB are complete and comprehensive; that they have been prepared in accordance with IFRS and reflect the actual status of the company and its Group, which corresponds to the opinion of the auditors as well. The financial and accounting system and accounting registers ensure the information necessary for the proper management of assets and liabilities of IHB and its subsidiaries, and for the timely detection and prevention of errors and misstatements. Risk management processes are organised appropriately and ensure the necessary control by management on the operating and market risks to which the Holding and its Group companies are exposed.

As a result of the periodic review of the external auditor's engagement, its independence reaffirmed by the information provided by the auditor at each of the meetings held, as well as by its last annual transparency report published in accordance with Article 62 of IFAA and Article 13 of the Regulation, AC considers that the services provided by the audit firm comply with the requirement to meet the standard of independence, impartiality and no conflict of interests as stipulated in the Code of Ethics of the International Ethics Standards Board for Accountants, ISA and IFAA. In the financial year 2020, the registered auditor did not provide services other than the audit and no threat to its independence occurred. The AC members are not aware of any relationships or other matters that could reasonably be expected to have an impact on the independence of the registered auditor.

After the state of emergency introduced in March 2020, management took advantage from the extension of the deadlines regulated by the Measures and Actions during a State of Emergency Act. In this regard, in 2020 additional communications were sent to investors regarding the expected deadlines for issue of the Group's consolidated financial statements for 2019, as well as for the public disclosure of the interim separate and consolidated financial statements for 2020 according to the changes. In full compliance with regulatory requirements, in 2020 IHB prepared and presented within the statutory deadlines all interim and annual (separate and consolidated) financial statements, and submitted them to the Financial Supervision Commission (FSC), the regulated market and the public within the statutory deadlines, in compliance with the requirements of the Public Offering of Securities Act. AC requires from the Investor Relations Directors of the Company to prepare periodically a report summarising the information provided to FSC throughout the year. In 2020, no violations were found by the regulatory authority and no acts were issued to the Holding's management.

In pursuance of one of its main functions, in August 2020 the AC proposed to the shareholders of the Holding to continue for one more year the engagement of AFA OOD. Then, the GMS re-elected the audit firm as an auditor of IHB for 2020 in accordance with the proposal and the opinion expressed by the AC that despite the difficulties in the first year of their engagement, the auditors have successfully coped with

the new challenges in this unusual situation concerning us all, namely the state of emergency and subsequently announced emergency epidemic situation.

In May 2021, the AC reviewed the proposal of AFA for the 2021 audit of IHB and the Group companies, which was consistent with the audit firm's offer submitted during the procedure for selection of an auditor for the period 2019-2021, as well as with the obliteration of IHB Electric from the Register and the forthcoming procedure for voluntary liquidation of the shipping company Emona. Based on the offer and its positive assessment of the qualification, expertise and resources of the registered auditor, as well as the effectiveness of the audit process for the financial year 2020, the AC recommended to the Management Board and Supervisory Board, and proposed to the General Meeting of Shareholders, that the audit firm AFA OOD be re-elected as auditor of IHB for 2021, for a third consecutive engagement. This recommendation has not been influenced by third parties nor has it been subject to any contractual obligation of the type specified in Article 16, para 6 of the Regulation.

This annual report on the activities in the financial year 2020 was approved by AC of IHB in May 2021.

AUDIT COMMITTEE