

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

**ANNUAL REPORT  
ON THE ACTIVITY OF THE AUDIT COMMITTEE  
OF IH BULGARIA AD IN 2021**

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 2021 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 March 2021, the AC members had got acquainted with the results of the scheduled inspections carried out in the Bulgarian Ship Register, KRZ Port Burgas, Odessos PBM and IHB Shipdesign. The envisaged overall review of IHB Shipping Co was postponed to 2022 because of the extended term of implementation of the specialist software for management of the main processes of operation of the ships in the company's own fleet. Instead, unscheduled targeted inspections were carried out at Bulyard Shipbuilding Industry and Bulport Logistics, by which it may be accepted that the 2021 internal audit plan has been fulfilled. The AC is of the opinion that in its operations the Internal Audit Unit follows the approved

operational rules, the internal control systems implemented in IHB and its subsidiaries (the Group) are effective, and the Holding's 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 2022, 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 inspection of the Bulgarian Ship Register has been planned and conducted remotely due to the epidemic restrictions. Nevertheless the results, an opinion was formed that the effect of direct contact and discussion with colleagues was lost. That is why, the next-to-follow inspections were carried out on-site by observing the anti-epidemic measures. In April 2022, the AC re-examined the internal control environment and adopted the results of the inspections carried out in pursuance of the approved internal audit plan for 2022. If necessary, targeted technical inspections will also 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 2021, 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; 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 2020. 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. While performing its main functions, the AC had not become aware of such, other than those disclosed in the letters of the Group's management bodies about inspections carried out by regulatory authorities in some of the subsidiaries, recommendations made to their management and their implementation. 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 as a result of the interim audits. 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 3Design as a result of the decision of the GMS of November 2021 to begin a procedure for voluntary liquidation of the company. 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. 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. Considering the discussions held in 2021 between ICPA and the Financial Supervision Commission (FSC) on the uniform electronic format of the financial statements

of entities whose securities are admitted to trading on a regulated market in the European Union, AFA's audit commitment is to be extended by adding additional procedures.

The AC scrutinised the main risks to which IHB and its Group companies were exposed in 2021, 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 combined effect of the second wave of COVID-19 and rising prices of main commodities and materials, natural gas, electric energy and heating energy, and their adverse impact on the Group, were discussed jointly with management and the auditors. Growing inflation has the strongest impact on the profitability of machine-building companies and the shipyard, whose productions are material- and energy-intensive. 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 development of the more important projects, relating to Group's processes digitalisation, were discussed as well. The AC was informed of the grounds and the decision liquidation proceedings to be initiated in respect of the subsidiary IHB 3Design.

In March 2022, a 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 spread of the COVID-19 virus would have a direct and significant impact and effects. Together with its experts, the audit team assessed the adequacy of the IHB's analysis of the impact of the coronavirus on its net investments, all aspects of the process of determining their recoverable amount and took into account the effects of the pandemic. As a result of reviews and tests, the holding company reversed part of the recognised in 2020 impairment loss of BGN 24,507 thousand on its investment in Privat Engineering, namely BGN 12,888 thousand. The auditors found no bias or problems and their opinion regarding the significant estimates was that the management had made reasonable and substantiated assumptions, and consistent methodology. 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 reported. 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. In connection with the requirement for submission of financial statements, which entered into force in 2021, and on the basis of the procedures carried out the auditors are of the opinion that the electronic XHTML format of the separate financial statements of IHB for 2021, included in the annual separate management report under Article 100n, paragraph 4 of the Public Offering of Securities Act, have been prepared, in all material respects, in accordance with the requirements of the Regulation on use of the European Single Electronic Format (ESEF) in respect of financial statements of issuers whose securities are listed on a regulated market within the European Union (the ESEF Regulation). Taking into account the professional requirements for them, AFA has included in its report a paragraph to draw attention to the fact that as of the date of issuance of the separate financial statements of IHB for 2021, the consolidated financial statements of the Group for the same period have not yet been issued and that management plans to prepare and issue these consolidated financial statements within the statutory deadlines. 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 in 2020, which became grounds for modification of the auditor's report on the separate financial statements of these companies and the consolidated financial statements of the Group, and will have an impact on their opinion to be issued on the same financial statements for 2021, because of the effect of the opening balances. 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 consolidated results for 2021 and the more important indicators for the Group's activity. The main risks, to which the subsidiaries were exposed, were reassessed. The emerging new risk, caused by the military conflict between Russia and Ukraine, which commenced at the end of February 2022, was also being discussed. Within the meaning of IAS 10, the latter event is classified as a non-adjusting event for the annual financial statements for 2021.

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 the registration with the Commercial Register of the reduction of the capital of IHB through invalidation of the treasury shares redeemed; dividends voted by the subsidiaries the financial statements of which had already been audited; securing a bank loan to finance the investment project for the expansion of the port terminal of Odessos PBM and signing a contract for a monetary loan to the company; consolidation of the portfolio by repurchasing from IHB minority interests of subsidiaries of the Group in the capital of other subsidiaries. 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 2022, the auditors discussed with the AC the significant results from the audit of the Group's consolidated financial statements for 2021, 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, discussed with the management of IHB, of some of the subsidiaries carried out by the regulatory authorities, the recommendations made and their implementation. 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 3Design undergoing a voluntary liquidation procedure. 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. Based on the procedures carried out by AFA, the auditors express an opinion that the electronic XHTML format and its marking in machine-readable language iXBRL of the five main forms of the consolidated financial statements of the Group for 2021, included in the annual consolidated financial statements under Art. 100n, para. 5 of the POSA, have been prepared, in all material respects, in accordance with the requirements of the EEEF Regulation. Due to the partial stock-taking of inventories in the “machine building” operating segment carried out in 2020, a qualified opinion is expressed in the auditor’s report on the consolidated financial statements for 2021 as well, and that corresponds to the Additional report presented to the AC in accordance with Article 60 of the Independent Financial Audit Act (IFAA).

The AC got acquainted with the development of the Group from the beginning of 2022 beyond the events disclosed in the separate financial statements: the terms renegotiated in January under the loan limit agreement for working capital financing; termination of the framework agreement for the provision of a revolving credit limit of USD 3 million for loans, bank guarantees and letters of credit for the needs of the companies - shipowners and the management company in the Maritime Transport segment; the struck-off sea mortgage on one of the Group's vessels provided as collateral. Management's expectations and assessment of facts, circumstances and risks with possible consequences for the Group's business in 2022 and its assets and liabilities were discussed as well. Because of the war in Ukraine and increasingly wider economic sanctions imposed by the European Union, the United States and other countries on the Russian Federation, the world's leading financial markets are experiencing shocks, and problems with supply chains and rising energy and basic commodity prices are globally expected to deepen further. At this stage, management of IHB and management of the Group companies monitor, currently analyse and assess possible consequences and effects of the conflict for the Group taken as a whole. As of the date of issue of these consolidated financial statements, there are no activities of the Group that have been significantly affected by the conflict, nor companies with discontinued or significantly reduced activity due to the conflict. The AC supports the management's opinion that, in general, the development and outcome of the conflict involve many uncertainties and it is very difficult to predict its short-term and long-term global and local effects.

The implementation of the increasing requirements for the so-called ESG reporting in the non-financial statement and extending the application of the EEEF Regulation will be the main challenge in 2022 and the following years. Management of IHB and Group companies strive to ensure compliance with environmental regulations and standards, and to reduce the carbon footprint of the Group’s activities. The AC got acquainted with the effect of both already implemented and envisaged investment projects in the process of implementation or forthcoming implementation, including those using renewable energy sources. These projects have been undertaken as measures to address unforeseen energy costs, implement the Group's policy of transition to a cleaner and greener economy and improve the Group's ESG performance.

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 IAS / 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 2021, AFA did not provide to the Holding and the Group 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.

In compliance with the legal requirements in 2021, 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, the regulated market and the public. The 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 2021, the regulatory authority did not carry out examinations and respectively, no violations were found and no acts were issued to the Holding's management.

In pursuance of one of its main functions, in May 2022 the AC reviewed the proposal of AFA for the audit of IHB and the Group subsidiaries in 2022. 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 years 2019-2021, 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 2022, for a fourth consecutive full-scope 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 2021 was approved by AC of IHB in May 2022.

AUDIT COMMITTEE