

**TO
THE GENERAL MEETING OF
SHAREHOLDERS OF
INDUSTRIAL HOLDING BULGARIA PLC**

**ANNUAL REPORT
ON THE ACTIVITY OF THE AUDIT COMMITTEE
OF INDUSTRIAL HOLDING BULGARIA PLC IN 2022**

This annual report on the activity of the Audit Committee (the AC) of Industrial Holding Bulgaria PLC (the company, the Holding, IHB) for the financial year 2022 was 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 re-elected last in 2022 for a new three-year mandate.

According to 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 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 under 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 its operations. In March and December 2022, the AC members had got acquainted with the results of the inspections carried out on the spot in IHB Metal Castings, KRZ Port Burgas, Bulyard Shipbuilding Industry, Odessos PBM, and ZMM Nova Zagora. The inspections of IHB Metal Castings, Bulyard Shipbuilding Industry, and ZMM Nova Zagora followed the internal audit plan approved in 2022. In addition to the scheduled inspection, a thematic inspection of IHB Metal Castings was carried out as well. The change in the composition of the internal audit unit at IHB made it necessary to postpone the inspections of IHB Shipping Co. and Odria, scheduled for 2022,

to the beginning of 2023. Instead, two extraordinary thematic inspections of KRZ Port Burgas and Odessos PBM were carried out, and therefore, it could be concluded that the 2022 internal audit plan was accomplished. The AC considered that the Internal Audit Unit followed the approved operational rules in its operations; the internal control systems implemented in IHB and its subsidiaries (the Group) were effective, and the Holding's management had created the necessary suitable control environment and supported the internal control by monitoring the implementation of the audit recommendations. It had been discussed and approved the draft plan for conducting audits of the Group companies in 2023, designed to correspond to the main goals in the activity of the Internal Audit Unit; the risk-based approach had been applied consistently in determining the auditees and process audits. If necessary, targeted technical inspections would also be carried out, by involving colleagues from the Group's team possessing proper skills and professional experience, therefore extending the scope of the internal audit beyond pure financial audits.

In March 2023, 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 and the scope and schedule of the annual audit. The following were communicated: the auditors' work environment strategy; main business processes and internal control systems of the Holding and Group companies; key audit areas; an assessment of the going concern principle-assumption at a Group level; 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, and the main challenge in 2022 relating to the e-format of the Company's financial statements (separate and consolidated) for 2022. The potential key audit matters (KAM) in the auditor's reports on the separate and consolidated annual financial statements, consistent with those of the previous year, were formulated: 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. There was no change in the basis and the materiality level for the audit of the separate and consolidated financial statements compared to those applied in 2021. There were no significant findings on material qualitative aspects of the company accounting practices, including accounting policies and estimates that ought to be communicated. In 2022, the AC was informed of suspicions of violations and fraud committed by employees of Triton Security and Protection - the security company of KRZ Port Burgas, which affected the subsidiary. The latter filed a complaint with the Burgas District Prosecutor's Office for the initiation of pre-trial proceedings for a crime of a general nature. No other cases of fraud or suspected fraud, and non-compliance with legal and other regulatory requirements, were identified to be reported to the AC. While performing its main functions, beyond those disclosed in the letters by the Group's management bodies, the AC had not become aware of other inspections carried out by regulatory authorities in some of the subsidiaries, recommendations made to their management and their implementation. There were no significant omissions in the internal control environment at the Group level. There were no related parties or material related party transactions, which management had failed to disclose to the auditors. No events or circumstances had been found that could cast doubts as to the ability of IHB and the Group companies to continue as a going concern in the foreseeable future. No problems that required urgent action were identified. All matters were timely commented on with the management of the companies and the Holding. The audit team was subject to review to verify the independence of its members. The Declaration of Independence was approved in conformity with Article 67 of IFAA.

The AC scrutinised the main risks to which IHB and its Group companies were exposed in 2022, and the measures taken by the management of the Holding and its subsidiaries to manage and limit those risks. The harmful effect on the Group of high prices of commodities and materials, natural gas, electricity and thermal

energy, was discussed with management and auditors. The AC also got acquainted with the development trends of the operating segments and entities in the investment portfolio, including the more important upcoming procedures in connection with the annual audit. The Group's major investment projects and the impact of rising loan interest rates were also subject to discussion.

A meeting with AFA was held in March 2023, where 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, and then one new KAM was defined: the recoverable amount of investments in and loans to subsidiaries in the Maritime Transport and Shipbuilding and Ship Repair operating segments. As a result of the review and tests carried out in 2022, the holding company reversed part of the impairment of its investment in Privat Engineering. The smaller amount of reinvested impairment compared to 2021 is due primarily to the rising interest rates, respectively, increase in the discount rate used in the models. 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 required disclosures were included 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 from the statutory audit, either discussed or been the subject-matter of correspondence with governing bodies. The AC also did not reveal any inconsistencies and/or frauds, or other similar matters to be communicated. In compliance with the professional requirements applicable to the presentation of the financial statements, AFA included in its report a paragraph to draw attention to the fact that the consolidated financial statements of the Group for the same period were not yet issued as of the date of issuance of the separate financial statements of IHB for 2022, and that management intended to prepare and issue the 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 and 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 recalled that the partial annual stock-taking of inventories made in two of the production enterprises operating in the "machine building" operating segment in 2020 represented a limitation in the scope of the procedures they performed for the audit of these companies, respectively for the Group's consolidated statement for 2020. They noted that the balances of these stocks as of 31 December 2020 became opening balances for 2021 and would affect the income statement for 2021 as the comparative year in the 2022 audit. Therefore, the auditor's report on the individual statements of the two companies and the consolidated financial statements for 2022 would include this limitation for the last time. No circumstances, which could affect the form and content of the audit reports issued in respect of the other subsidiaries, were identified. The AC got acquainted with the preliminary consolidated results for 2022 and the more important indicators of the Group's activity as a result of the consequences of the COVID-19 pandemic, the ongoing military conflict in Ukraine, and the economic sanctions imposed by the European Union, the United States and other countries on the Russian Federation.

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: annexation of an agreed bank loan of IHB for financing investments of Odessos PBM; termination of a long-term contract with a bank for the provision of a credit limit for issuing bank guarantees and working capital financing and, consequently, erasure of the pledge on the commercial enterprise of KRZ Port Burgas and the related entries in the property register and

the special pledge register, whereby the new limit under the contract with another bank for working capital financing, issuing bank guarantees and letters of credit to IHB and/or Group companies is released for use; voted dividend from subsidiaries whose financial statements have already been audited; incorporation and registration in the Netherlands of a joint venture between International IHB AG and a local company to explore the possibilities of developing renewable energy projects. These matters were included in an Additional Report 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).

At the end of April 2023, the auditors discussed with the AC the significant results from the audit of the Group's consolidated financial statements for 2022, systematised in key audit areas identified by AFA and discussed at previous meetings as well. The KAM was consistent with that identified during the planning phase and in the previous year as regards 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, which were not previously disclosed to the auditors, were identified. There were no significant findings on major qualitative aspects of the Group's accounting practices, including accounting policies, estimates, and disclosures in the consolidated financial statements, which needed discussion. The auditors reaffirmed impairment, estimates and methods employed, and there were no significant gaps or inconsistencies in the individual entities' financial reporting. Disclosures made were complete and appropriate. There were no significant unadjusted audit differences. 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 AC was informed about the development of the case with KRZ Port Burgas and the pre-trial proceedings initiated by the Burgas District Prosecutor's Office for a crime under Article 212, Paragraph 5 of the Criminal Code. They had not found any irregularities, including fraud, involving the financial statements that needed communication with the AC; likewise, while performing its functions, the AC had not identified any identical irregularities, besides 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 in the internal control of the Group companies were identified. The main features of the internal control and risk management systems of the Group, related to the financial reporting process, supported the prevention, or detection and correction, of material misstatements. 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 a going concern. Because of the partial stock-taking of inventories in the Machine Building operating segment carried out in 2020, the auditor's report on the consolidated financial statements for 2022, 2021, and lastly 2022 contained a qualified opinion and conformed to the supplementary report submitted to the AC in accordance with Article 60 of the Independent Financial Audit Act (IFAA).

Management of IHB and management of the Group companies monitor the environmental impact of their manufacturing processes, striving to ensure compliance with environmental standards and reduce the carbon footprint of the Group's activities. In general, the AC is familiar with the EU Delegated Regulations coming into force (EU Taxonomy, Taxonomy), which establish the criteria determining whether a given economic activity qualifies as environmentally sustainable to define the degree of environmental sustainability of an investment. The disclosures are based on the existing regulatory framework at the end of 2022, as the EU Taxonomy is still under development. IHB defined the Taxonomy-eligible activities of the Group in 2022, and an assessment of compliance of these activities with the required technical criteria and Do No Significant

Harm criteria was made. IHB did not report Taxonomy-aligned activities. The key indicators required by the Taxonomy were disclosed, namely: eligible turnover, capital expenditure and operating expenses for 2022. The same indicators are to be disclosed in the following years as well. Compliance with the Minimum Safeguards criteria was assessed according to the four key elements – human rights; taxation; corruption and bribery, and fair competition. The Group's existing policies were reviewed for compliance with the applicable EU Taxonomy regulations, and the Group considered that the minimum safeguards criteria were satisfied.

By implementing environmental protection projects, including such employing renewable energy sources, IHB management seeks a solution not only to the problems caused by unpredictable electricity costs but also the Group continues to implement its long-term investment program in pursuance of the policy of transition to a cleaner and greener economy, and to improve the so-called ESG performance. The main challenge in 2022 and the following years will be to fulfil the increasing ESG reporting requirements to the non-financial statement, as well as the extended application of the EEEF Regulation, by marking all explanatory notes to the consolidated financial statements for 2022 and on a later stage, all components of the notes in a machine-readable format.

The AC believes 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 was 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 2022, 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 2022, 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 the Investor Relations Directors of the Company to periodically prepare a report summarising the information provided to FSC throughout the year. In 2022, the regulatory authority did not perform examinations, and respectively, violations were not found and acts were not issued to the Holding's management.

At the end of 2022, the IHB management launched a tender procedure for the selection of a registered auditor to carry out a statutory independent financial audit of the separate financial statements of the Group companies and the consolidated financial statements of IHB for the period 2023-2025. In implementing its core function to be in charge of this procedure and recommend the appointment of a registered auditor, in November 2022, the AC approved the tender procedure documentation prepared by the Holding with its assistance. The Management Board of IHB also approved the document. The AC was informed on an ongoing

basis, as well as at the meetings in December 2022 and March 2023, about the development of the tender procedure and got familiar with all accompanying documents, evaluations, and the shortlist. The AC concluded that the selection procedure was organised and conducted by IHB fairly and in compliance with Article 65 of IFAA and Article 16 of the Regulation. The AC approved the *Report on the conclusions of the tender procedure for the selection of a registered auditor to carry out the statutory independent financial audit of the separate financial statements of the Group companies and the consolidated statement of IHB for the period 2023-2025*, prepared by the selection committee of the Holding.

According to Article 16, Paragraph 2 of the Regulation, Article 108, Paragraph 1, item 6 of IFAA, and to one of its core functions according to the Statute (Regulations on the Activity), in March 2023, the AC submitted a recommendation to the IHB Management and Supervisory Boards, and proposed to the General Meeting of Shareholders that AFA OOD or Zaharinoва Nexia EOOD, which participated in the tender procedure and was assigned the highest number of points according to their final assessment, placed first and second in the shortlist respectively, to be elected as a registered auditor of IHB for the financial year 2023. The AC expressed its preference for the auditor to be selected the audit firm AFA OOD, which was assigned the highest final score, taking into account its main advantage: an auditor of the IHB Group for the last four years that is well aware of the specifics of the industries of the Holding's investment portfolio. The other advantages of AFA were also considered: a Bulgarian auditor appointing over 110 experts and administrative staff, including its audit team employing more than 40 people, well established on the local market with its authority and reputation, possessing many years of professional experience gained in working with IFRS, participating in various international projects; an expressed willingness to invest in a long-term relationship with IHB, which enables it to maintain an appropriate and suitable team for the audits of IHB and its Group, as well as the ability to retain the lead auditors if the audit engagement continues. If AFA OOD is elected to be the auditor for 2023, this will be the fifth consecutive full-scope engagement for statutory separate and consolidated audits of IHB carried out by the audit firm, which complies with Article 65, Paragraph 3 of IFAA. For each subsequent year until 2025 inclusive, it will be possible to renew the audit engagement provided that there is a decision of the General Meeting of Shareholders to this effect.

This annual report on the activities in the financial year 2022 was approved by AC of IHB in May 2023.

AUDIT COMMITTEE