

**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 2023**

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 2023 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 December 2023, the AC members had got acquainted with the results of the inspections carried out on the spot in IHB Shipping CO EAD and two of the shipping companies, ZMM Bulgaria Holding EAD, ZMM Sliven AD, Bulyard Shipbuilding Industry EAD, and KRZ Port Burgas AD, and therefore, it could be concluded that the 2023 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 2024, 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 inspections would also be carried out, by involving colleagues from the Group's team possessing proper skills and professional experience, when such expertise is required.

In December 2023, together with the auditors from BDO 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 challenges. 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 2022. There were no significant findings on material qualitative aspects of the company accounting practices, including accounting policies and estimates that ought to be communicated. 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 2023, 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 war in Ukraine, worsened economic activity globally, yet high prices of main commodities and materials, rising prices of services and growing interest rates. 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 were also subject to discussion.

A meeting with AFA was held in March 2024, where the results of the annual audit of the separate financial statements of IHB were communicated. The essential audit areas defined in the interim audit were discussed again, and then one KAM was defined: the recoverable amount of investments in and loans to subsidiaries in the Maritime Transport and Shipbuilding and Ship Repair operating segments. Following a review of the assessment of IHB's net investments (investments and loans originated) in the subsidiaries in the Maritime Transport and Shipbuilding/Ship Repair segments, which reflects the specifics of the business sectors in which these companies operate, IHB had:

- recognised an impairment loss on its investment in Privat Engineering in the amount of BGN 2,211 thousand;
- reversed part of the impairment loss on its investment in Bulyard Shipbuilding Industry in the amount of BGN 1,692 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 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 2023, 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.

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 2023 and the more important indicators of the Group's activity.

The AC also got acquainted with the significant events that had occurred after the reporting date and were disclosed in the separate financial statements.

All 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 2024, the auditors discussed with the AC the significant results from the audit of the Group's consolidated financial statements for 2023, 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 auditors 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.

The auditor's report on the consolidated financial statements contains an unmodified audit opinion. The expressed audit opinion complies with the Additional Report presented to the AC of IHB in accordance with the requirements of Article 60 of the IFAA.

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 2023, 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 2023, 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 2023, the regulatory authority did not perform examinations, and respectively, violations were not found and acts were not issued to the Holding's management.

Upon fulfilling one of its primary functions, in May 2024, the AC reviewed BDO AFA's proposal to audit IHB's separate and consolidated financial statements and audit/review of its Group companies for 2024. Based on the submitted proposal and its positive assessment of the registered auditor's qualifications, expertise and resources, as well as the effectiveness of the audit process for the financial years 2019-2023, the AC recommended to the Management Board and Supervisory Board, and tabled to the General Meeting of Shareholders that BDO AFA Ltd. be re-elected as IHB's auditor for 2024. If BDO AFA OOD is elected to be the auditor for 2024, this will be the sixth 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 2023 was approved by AC of IHB in May 2024.

AUDIT COMMITTEE