

**ATTENTION TO THE GENERAL MEETING
OF SHAREHOLDERS
OF
“MONBAT” AD**

**ACTIVITY REPORT
OF THE AUDIT COMMITTEE
for 2020**

Dear shareholders,

The audit committee of Monbat AD in its current structure - Aneliya Angelova-Tumbeva – Chair of the audit committee, Yordan Karabinov and Georgi Trenchev – members, has been reelected with a decision of the General Meeting of Shareholders (GMS) of the company dated September 18, 2020 with a mandate of 1 year as of the date of its reelection.

In this unchanged structure, the audit committee has fulfilled its functions since the date of its reelection until the date of this report.

The rights and obligations of the audit committee have been listed in detail in article 108 of the Independent Financial Audit Act. All of them are underlying in the approved status of the audit committee. Some of the most essential rights and obligations of the audit committee are: To observe the process of financial reporting in the company; the efficiency of the internal control systems, and the efficiency of the risk management systems. Furthermore, the audit committee shall observe the mandatory financial audit of the annual financial statements of the company, including by performing an audit and observation of the dependency of the registered auditor in compliance with the requirements of IFAA and Regulation (EU) No. 537/2014. Last, but not least, the task of the audit committee shall be to inform the management and the supervisory authority for the results from the mandatory financial audit and shall clarify the manner in which the mandatory audit has contributed to the reliability of financial reporting of the company.

In conjunction thereto, the activity of the audit committee in 2020 may be summarized as follows:

1. Observation of the financial reporting processes

The company shall draft its financial statements (individual and consolidated financial statement) on the basis of the International Financial Reporting Standards (IFRS), adopted by the European Union (EU). In conjunction thereto, the company has a detailed and adequate accounting policy/. This accounting policy does not have any change compared to the previous year, when IFRS 16 *Lease* has been applied for the first time. As regards to the other new standards, amendments, and clarifications, effective since 2020, these do not have a meaningful impact over the financial statement of the company for 2020.

The accounting services of the company and in 2020, respectively the drafting of its financial statements (interim and annual) has continued to be performed by the accounting company Belnikolov & Partners OOD. The internal accountants of the company are committed to the current financial reporting of the business operations, and in order to secure the organization and controlling in drafting monthly, quarterly, and annual (individual and consolidated) financial statements, the responsible officials are of the central financial department of the company under the direct supervision of the financial director and

the Group Financial Director. For the purposes of the internal and external reporting, the company has certain terms for drafting and sending the respective reports for approval to the management and the audit committee, prior to their publication.

In 2020, the audit committee has continued the trend for familiarizing with the minimum content and structure of the intermediate quarterly and annual (individual and consolidated) financial statements, disclosed to the public. For the results from this current awareness and overview, minutes of the meetings of the audit committee have been drafted.

During the past dynamic and extraordinary 2020, the company has drafted and published within the legally established term (and extended due to the extraordinary situation as regards to the declared global Covid-19 pandemic) its annual individual financial statement for 2019, as well as the respective interim quarterly individual and consolidated financial statements, and thus the requirement for their disclosure before the regulators and the public has been met. As regards to the annual consolidated financial statement of the company, certain delay has been experienced regarding the conclusion of the statutory audit, and respectively regarding its disclosure, but in consideration to the extraordinary circumstances for the company, related not just to the global health and economic crises, but also the actions taken by the state prosecution in the month of May 2020 toward senior officials and main shareholders in the company, the notable fact is that the company's financial department managed to adequately meet all challenges that have been posed to it, due to all of these events of force majeure.

Regarding the statutory financial audit of the individual statement of the company for 2021, concluded until the date of this financial statement, the conclusion could be made that to the extent that we are recognized with the expressed qualified opinion of the new auditor – the audit company Grant Thornton OOD, no major flaws or irregularities in the financial reporting process have been found, which could have an effect on the reliable presentation of the financial status of the company, including taking into consideration the effects of the expressed qualified opinion of the previous auditor Ernst & Young Audit OOD for the previous year 2019. Moreover, as a finding from the audit process, related to the concluded individual audit for 2020, we have not been informed by the audit company for any cases of established and/or suspected fraud and/or illegal actions, including top management and which result in material deviations in the individual financial statement of the company for 2020.

2. Observation of the efficiency of the internal control system and the risk management system regarding financial reporting

The Managing Board (Management) of the company shall be responsible for determining and management of the risks in the company. The management is the body responsible for the identification, assessment and undertaking corrective actions to eliminate and/or diminish the respective risk, and also for follow-up monitoring on the implementation and the deliverables from the actions undertaken. The risk management policy shall be subject to current analysis and control regarding compliance with the established limits for taking risks. During the past period, the committee has maintained operational communication with the financial management of the company on these matters.

Regarding the mandatory audit of the individual financial statement of the company, which has concluded as of the date of this report, the auditor has presented to the audit committee its report for any discovered weaknesses in the accounting and/or recommendations, together with the comments of the management thereunder. To the extent that more of the established faults are immaterial, as per the assessment of the management, they shall be included in the table for the non-adjusted errors as of 31.12.2020. A qualified audit opinion has been expressed for the most material finding of the auditor, due to the fact that the company has not drafted a test for impairment of the investment in the subsidiary Monbat Immobilien GmbH, with balance value 26,562 thousand BGN, receivables, and loans in it, equal

to 7,749 thousand BGN as of 31.12.2020. In its nature, this qualification repeats the qualified opinion on this matter, expressed also by the previous auditor.

The main risks related to financial instruments of the company for 2020 are disclosed in the audited annual financial statement of the company, adding a disclosure to them regarding the effect of the COVID-19 pandemic over the financial position and performance of the company for the reporting period.

The management of financial risk is related to the management of the capital of the company. The main objectives of the management of the capital of the company are to ensure its ability to continue existing as a going concern and an adequate profitability for the shareholders, by determining the price of products and services in compliance with the risk level.

External capital requirements are levied to the company, outside of the one referring to the capital of public limited companies under the Commercial Law, and which are related to the utilized bank financing and the issued bond loan. The company is tracking its private equity through the financial result for the reporting period and the ratio of net debt to private equity.

3. Observation of the statutory financial audit, including performance of the statutory financial audit

In compliance with the requirements of the Independent Financial Audit Act, the company is subject to mandatory financial audit.

In relation to this, at a GMS dated 07.12.2020, under a proposal of the audit committee and a completed selection process, a new auditor has been selected – the audit company Grant Thornton OOD, which would perform an independent mandatory financial audit of the annual financial statements of the company for the year 2020. For the audit company, this represents a first complete uninterrupted work for statutory audit of the company. The selection of the auditor is in compliance with article 48, para 3 of IFAA and its term shall be 1 year.

According to article 48, para 1 and para 2 of IFAA for assuming the obligation for an audit, the company and Grant Thornton OOD have signed the require documents for the audit liability for the financial year 2020, the audit committee is familiar with their obligation, but has not participated in their preliminary coordination

The audit committee has performed a review of the independence of the registered auditor at the time of initial takeover of the commitment, in compliance with the requirements of IFAA and Regulation (EU) 537/2014. To this end, Grant Thornton OOD has declared, with an explicit declaration, at the time of starting of the process of the annual audit, its independence from the company in compliance with the requirements of Chapter Six and Seven of IFAA, as well as with article 6 of Regulation (EU) No. 537/2014.

The independence of the auditor has also been observed throughout the individual statement of the company, and also reconfirmed as of the date of issuance of the audit report regarding the individual statement – 31.03.2021. Furthermore, the audit report of the independent auditor for 2020 contains an additional disclosure, as per article 10 of Regulation (EU) 537/2014 in conjunction with article 60 of IFAA. Its independence is also included as a part of this additional reporting.

During the past 2020, the audit company has not provided to the company any services outside of the scope of the audit, after assuming the audit commitment, for which services preliminary approval has to be requested by the audit committee under article 64, para 3 of IFAA. The audit committee has found

that the registered auditor has not provided additional services outside of the scope of the concluded agreement for audit for the financial year 2020, in view of which the requirements for independence of the auditor under article 64 of IFAA and article 5 of Regulation (EU) 537/2014 have been met. This is also confirmed expressly in the statement set forth in article 10 of Regulation (EU) 537/2014, which is part of the audit report.

The auditor opinion of Grant Thornton OOD on the individual financial statement of the company is qualified in conjunction with the impossibility of the auditor to receive sufficient and relevant auditor evidence regarding the follow-up assessment of the investment in its subsidiary Monbat Immobilien GmbH and the loans and the receivables from it, according to the requirements of IFRS.

The audit report shall also include paragraph "Key auditor questions", wherein, according to the International Audit Standards, the matters with the highest importance during the audit shall be detailed, on the basis of the professional assessment of the auditor. In this particular case, the auditor has determined as additional communication, other than the matters related to the expressed qualification and the following matters: *Monbat AD affiliates: disclosure and assessment of the recoverability of loans and receivables*, as well as the effect of the COVID-19 pandemic on the individual financial statement of Monbat AD. The last question is related to the public statement of ESMA regarding "Priorities for disclosure in the annual financial statements for 2020", as well as its earlier statement regarding "Accounting impact of the COVID-19 pandemic on calculating the expected credit losses in compliance with IFRS 9".

Furthermore, in the audit report, the paragraph "Emphasis of matter" has also been added, in conjunction with material events, which have occurred after the end of the reporting period and duly disclosed in the individual financial statement.

Furthermore, in its report, the auditor has expressed its opinion on another information, which the company presents, together with its individual financial statement – operational report, statement of corporate management, in compliance with the requirements of article 37, para 6 of the Accounting Act, and article 100n, para 10 of POSA in conjunction with article 100n, para 8, items 3 and 4 of POSA, and the new reporting for 2020, namely – the report for fulfillment of the policy for remunerations in compliance with the requirements of article 116c, para 1 of POSA and Ordinance No. 48 of FSC.

Furthermore, the auditor has made statements set forth in article 100n, para 4, item 3, letter "b" of POSA as regards to the affiliates and a statement set forth in article 100n, para 4, item 4, item "c" of POSA for the essential transactions and events.

At the conclusion of the individual audit of Monbat AD for 2020, Grant Thornton OOD has presented to the audit committee an additional report, as set forth in article 60 of IFAA. This report systematizes information regarding the scope and communication between the audit committee and the audit company in conjunction with the conclusive stage of the audit of the company; performance of the audit plan and the time threshold; the relevancy threshold, the used methodology and the significant risks; the auditor software; the material findings from the audit, along with the conclusions regarding the used accounting methods for assessment and the going concern principle; the key auditor matters, and other material risks and matters in relation to the audit; the established weaknesses and recommendations, related to internal control, the accounting system and compliance with the statutory requirements, as well as a summary of the audit differences; the auditor remuneration, etc. The responsibilities of the auditor for the audit of the individual financial statement of the company have been respectively described and its dependency has been reconfirmed as a particularly important prerequisite for validation of the audit commitment.

The presented auditor program and time schedule for performance of the individual audit for 2020 have been fully complied with, in comparison with the initially planned ones.

As of the date of its appointment in 2020, until the date of issuance of the audit report on the individual financial statement of Monbat AD, the selected auditor maintains good and timely communication with the audit committee on the important matters, related to the performance of the audit, the planned auditor procedures, and other current matters. Additionally, during the reporting period, remote meetings with the audit team have also been conducted.

In 2020 and until the date of this report, the audit committee has not received signals about irregularities, fraud, or other such actions, reflecting the activity of the company and accruing the interests of its shareholders. No reports for omissions and irregularities have been received, in the fulfillment of the obligations of the selected external auditor of the company.

Until April 30, 2020, according to article 62, para 3 of IFAA, the audit company – Grant Thornton OOD shall publish its transparency report for 2020, wherein Monbat AD shall be indicated as audited company of public interest for 2020.

On 23.02.2021, the results have been published on the website of CPSRA (the Commission) of the inspection performed for guaranteeing the quality of the professional activity of the audit company Grant Thornton OOD – reg. No. 032 of the register set forth in article 20 of the Independent Financial Audit Act, and the audit practice has been given the grade "A" – the professional activity of the audit company shall be in compliance with the material aspects of the requirements of the audit standards and with the regulatory requirements, and no necessity occurs from direct improvements of the auditor practice.

This information is an additional guarantee for reliable reporting of the financial condition of the company, which is inspected and certified by an esteemed professional certified auditor. The existence of this information shall be necessary in view of certifying the timely performance of the obligation of the audit committee to comply with the findings and conclusions of the Commission on the application of article 26, paragraph 6 of Regulation (EU) No. 537/2014 in its work, and assessment of the performed financial audit. Further to this information, as of the date of this statement, there is no other published information by CPSRA, which refers to the audit company.

This report of the audit committee of Monbat AD has been drafted in compliance with article 108, para 1, item 8 of IFAA, which requires reporting its activity before the appointing body - the General Meeting of Shareholders.

This report has been drafted by the audit committee and unanimously by all of its member on the conducted remote meeting dated 26.04.2021.

Sofia, 26.04.2021

Chair of the audit committee:



A. Angelova-Tarboeva