

2017 /1.0

AUDIT COMMITTEE OF BALKANCAR ZARYA AD

CORPORATE GOVERNANCE

ANNEX TO THE MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF
“BALKANCAR ZARYA” AD, HELD ON MAY 18, 2017

STATUTE of the Audit Committee of “Balkancar Zarya” AD

I. Introduction

This Statute of the Audit Committee has been prepared pursuant to Article 107, Paragraph 7 of the Independent Financial Audit Act and defines the functions, rights, and obligations of the Audit Committee with regard to the financial audit, internal control, and internal audit, as well as its relationships with the governing bodies of “Balkancar Zarya” AD (the “Company”).

Defining the functions of an effectively operating Audit Committee will minimize financial, operational, and compliance risks, and enhance the quality of financial reporting.

II. Composition, Structure, and Operating Rules of the Audit Committee

Art. 1. The Audit Committee consists of three members.

Art. 2. The members of the Audit Committee are elected by the General Meeting of Shareholders upon proposal by the Company’s Board of Directors.

Art. 3. Non-executive members of the Board of Directors may be elected as members of the Audit Committee.

Art. 4. Members of the Audit Committee must hold a Master's degree and have knowledge of the industry in which the Company operates. At least one member must have no less than five years of professional experience in accounting or auditing.

Art. 5. The majority of the Audit Committee members must be external and independent from the Company. An independent member of the Audit Committee may not be:

1. a member of the Board of Directors, executive director, or employee of the Company;
2. a person engaged in ongoing commercial relations with the Company;
3. a member of a management or supervisory body, procurator, or employee of an entity engaged in ongoing commercial relations with the Company;
4. a related party to any member of the Company’s governing bodies.

Art. 6. The absence of circumstances under Art. 5 is established through a written declaration submitted to the General Meeting by each nominee prior to their election. If such circumstances arise after election, the respective member must promptly notify the Board of Directors in writing and cease performing their duties. A new member shall be elected at the next General Meeting.

Art. 7.

1. The Chair of the Audit Committee is elected from among its members.
2. The Chair must also meet the requirements of Art. 5.

Art. 8.

1. Meetings of the Audit Committee are convened by the Chair or upon request by any member of the Board of Directors.
2. The Chair has no right to refuse convening a meeting.

Art. 9. Meetings are chaired by the Chair of the Committee, who is elected at the first meeting.

Art. 10. A meeting is valid if more than half of the Committee members are present.

Art. 11. Members of the Company's governing bodies, financial statement preparers, and the registered auditor for the respective year may attend meetings without voting rights.

Art. 12. Decisions of the Audit Committee are adopted by a simple majority.

Art. 13. The Audit Committee may adopt decisions in absentia, provided that all members have given written consent and signed the minutes.

Art. 14.

1. Minutes are kept for each meeting, recording the agenda, decisions made, and voting results.
2. The minutes are signed by all members present.
3. Minutes must be retained for five years.

III. Functions, Rights, and Responsibilities Regarding the Financial Audit

Art. 15. The Audit Committee shall:

1. inform the governing and supervisory bodies of the Company about the results of the statutory audit and explain how it contributed to the reliability of financial reporting, as well as the role of the Audit Committee in this process;
2. monitor the financial reporting process and provide recommendations and proposals to ensure its effectiveness;
3. monitor the effectiveness of the internal control system, risk management system, and internal audit activities in relation to financial reporting;
4. monitor the statutory audit of the annual financial statements, including its performance;
5. assess and monitor the independence of the registered auditors in accordance with Chapters Six and Seven of the Independent Financial Audit Act, including the appropriateness of providing non-audit services to the Company;
6. be responsible for the selection procedure of the registered auditor and recommend their appointment, unless a selection committee exists within the Company;
7. report its activities to the General Meeting of Shareholders;

8. prepare and submit an annual report on its activities to the Public Oversight Commission for Statutory Auditors by June 30.

Art. 16. The Audit Committee has the right to receive sufficient resources from the Board of Directors to effectively fulfill its duties.

Art. 17. The Audit Committee has the right to request assistance from the members of the Board of Directors and Company employees in performing its activities.

Art. 18. The Audit Committee has the right to request an additional report from the registered auditor in accordance with Article 60 of the Independent Financial Audit Act.

IV. Functions, Rights, and Responsibilities Regarding Internal Control and Internal Audit

Art. 19. The Audit Committee monitors the financial reporting processes in the Company.

Art. 20. The Audit Committee participates in risk assessment for the Company and promptly informs the governing bodies of any identified risks, while also proposing measures for their mitigation or elimination.

Art. 21. The Audit Committee has direct access to all components of the Company's information system to ensure accurate data reflection related to financial reporting.

Art. 22. The Audit Committee performs direct control activities over processes related to current financial reporting. Oversight of the Board of Directors and financial statement preparers shall ensure the avoidance of unusual business practices.

Art. 23. In fulfilling its internal control and audit-related responsibilities, the Audit Committee may submit proposals and recommendations to the Board of Directors regarding:

1. the presence and adequacy of risk management measures;
2. the need to implement new measures for newly identified critical risks;
3. the need to modify existing measures when found insufficient;
4. the reduction of risk management measures when they are deemed unnecessary;
5. the need to set deadlines and responsibilities for implementing the above actions.

Art. 24. The Audit Committee has the right to request detailed information from the relevant bodies and individuals within the Company regarding undertaken actions to improve internal audit plans.

V. Relations of the Audit Committee with the Governing Bodies of the Company

Art. 25. In the execution of its rights and responsibilities, the Audit Committee:

1. informs the governing bodies of the Company of the results of the statutory audit and explains how it has contributed to the reliability of financial reporting, as well as the role of the Audit Committee in this process;
2. submits recommendations and proposals to the Board of Directors, if necessary;
3. monitors the effectiveness of the internal control system, risk management system, and internal audit related to financial reporting and interacts with the governing bodies regarding optimization of the control system;
4. verifies and monitors the independence of the registered auditor, including the appropriateness of providing non-audit services, and, if such services are identified, refers the matter to the Board of Directors and the Public Oversight Commission for Statutory Auditors.

NOTE:

THIS IS A REFERENCE TRANSLATION IN ENGLISH OF THE ORIGINAL BULGARIAN VERSION. IN CASE OF DOUBT THE BULGARIAN VERSION APPLIES.