



ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ

**INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION
ON A CONSOLIDATED BASIS**

30 September 2019

INDUSTRIAL HOLDING BULGARIA PLC
Public notification for financial position on a consolidated basis
For the period ended 30 September 2019

CORPORATE INFORMATION

Industrial Holding Bulgaria PLC is a joint stock company (PLC), registered in the Republic of Bulgaria on Company File number 13081 / 1996 with headquarters and registered office at 42 Damyan Gruev Str., Sofia, Bulgaria. The financial year of the Company ends on 31 December.

Initially, the Company has been established as a Privatisation Fund according to the Privatisation Funds Act under the company name Privatisation Fund Bulgaria PLC.

The General Meeting of Shareholders held on 27 February 1998 passed a decision to reorganize the activities of Privatisation Fund Bulgaria PLC into a holding company and to rename it from Privatisation Fund Bulgaria PLC to Industrial Holding Bulgaria PLC. The Company's capital amounts to BGN 107,400,643 at 30 September 2019. The company has a two-tier system of governance, comprising Supervisory Board and Management Board.

As at 30 September 2019, Industrial Holding Bulgaria PLC has 9 direct subsidiaries (31 December 2018: 9), no associates (31 December 2018: Nil), and 12 indirect subsidiaries (31 December 2018: 12 indirect subsidiaries), collectively referred to as "the Group".

The scope of activity of the Group includes production and trading activities in the area of heavy machinery, shipbuilding, ship repair and maritime transportation, port services, designer's services, maintenance and repair, and other services.

The Company is registered with the Register kept by the Registry Agency under unified identification code (UIC) 121631219. It is registered pursuant to the Value Added Tax Act. The shares of Industrial Holding Bulgaria are listed on the Bulgarian Stock Exchange, Sofia.

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NOTES

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2019

In BGN'000

	30 September 2019	30 September 2018
Revenue from contracts with customers	77,005	65,160
Rental income	8,479	12,508
Other operating income	1,335	3,986
	86,819	81,654
Changes in stock of work in progress and finished goods	1,541	1,194
Self-constructed assets in progress	517	285
Costs of materials	(26,044)	(21,402)
Costs of hired services	(15,015)	(13,614)
Depreciation/amortisation expenses	(10,529)	(10,435)
Costs of personnel	(21,436)	(19,565)
Other operating expenses	(2,899)	(3,526)
Operating profit	12,954	14,591
Finance income	1,199	678
Finance costs	(1,567)	(2,465)
Profit before taxes	12,586	12,804
Income tax expense	(1,459)	(1,264)
Profit for the year	11,127	11,540
Attributable to:		
Equity holders of the parent	10,533	11,096
Non-controlling interests	594	444
	11,127	11,540

Revenue from contracts with customers

In BGN'000

	30 September 2019	30 September 2018
Performance obligation		
Manufacture of metal-cutting machines, components and details	25,020	23,708
Cargo transportation under voyage charter contracts	25,914	17,723
Repair and reconstruction of ships	9,855	9,652
Manufacture of metal structures	1,036	281
Designer's services	3,897	3,016
Cargo processing	7,821	7,689
Cargo storage	930	791
Quay rent	1,233	1,279
Other services	1,299	1,021
Total revenue from contracts with customers	77,005	65,160

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Rental income

In BGN'000

	30 September 2019	30 September 2018
Income from rent of ships (under time charter of ship contracts)	6,760	10,926
Property rentals	1,719	1,582
	<u>8,479</u>	<u>12,508</u>

The Group's total revenue from contracts with customers and rental income for the first nine months of 2019 increased compared to revenue reported for the same period of 2018. The income dynamics is primarily due to:

- During the nine months of 2019 the Group's ships realized more days in voyage charter than in time charter compared to the nine months of 2018; as a result, the income from voyage charter has increased and that from time charter has decreased. In general, the freight market in the second and third quarter of 2019 has improved, which in turn has had a positive impact on ship charter income. The growth in income is due also to the higher levels of the average USD exchange rate compared to the same period of 2018.
- Revenue from sales of universal lathes and lathes using software for digital management scores a growth, regardless of the still unstable political global environment.
- The increase in revenue from design of ships and marine structures is due to both the better positions of the company with its partners and the demand for new development opportunities. The stricter ecological requirements to ships have also impacted positively this trend.

Other operating income

In BGN'000

	30 September 2019	30 September 2018
Gain on sale of fixed assets and assets held for sale (Note 9a)	53	2,764
Gain on sale of materials and scrap	877	735
Income from financing	151	190
Other income	254	297
	<u>1,335</u>	<u>3,986</u>

Gain on sale of assets held for sale and fixed assets

In BGN'000

	30 September 2019	30 September 2018
Gain on sale of assets held for sale and fixed assets	149	19,539
Book value of assets held for sale and assets sold	(96)	(16,775)
	<u>53</u>	<u>2,764</u>

The net effect of the transaction for sale of land and buildings, plant and equipment of the subsidiary, IHB Electric AD, amounting to BGN 2,316 thousand, is included in the revenue from sale of fixed assets in the third quarter of 2018.

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Costs of materials

In BGN'000

	30 September 2019	30 September 2018
Main materials	(11,671)	(10,610)
Fuel used un ships	(8,087)	(5,229)
Auxiliary materials	(2,523)	(2,187)
Electric power	(1,720)	(1,674)
Spare parts	(1,482)	(1,225)
Other materials	(561)	(477)
	<u>(26,044)</u>	<u>(21,402)</u>

Costs of hired services

In BGN'000

	30 September 2019	30 September 2018
Port-related expenses	(4,868)	(3,458)
Services of subcontractors	(3,920)	(4,001)
Insurances	(1,103)	(998)
Agency services	(998)	(966)
Repairs	(744)	(499)
Security	(704)	(717)
Software maintenance on subscription	(366)	(290)
Rents	(323)	(550)
Civil contracts	(295)	(355)
Other services	(1,694)	(1,780)
	<u>(15,015)</u>	<u>(13,614)</u>

Costs of personnel

In BGN'000

	30 September 2019	30 September 2018
Salaries	(16,966)	(15,529)
Compulsory social insurance	(2,550)	(2,304)
Management contracts	(1,092)	(979)
Compulsory social and health insurance on management contracts	(80)	(75)
Other personnel costs	(748)	(678)
	<u>(21,436)</u>	<u>(19,565)</u>

Other operating expenses

In BGN'000

	30 September 2019	30 September 2018
Impairment	(765)	(1,787)
Local taxes and charges, tax on expenses and VAT	(776)	(534)
Business trip expenses and replacement of crew	(784)	(795)
Costs of scrapping and liquidation of fixed tangible assets	(185)	(44)
Other expenses	(389)	(366)
	<u>(2,899)</u>	<u>(3,526)</u>

A loss of BGN 765 thousand due to impairment of receivables from customers was reported over the period January - September 2019 in the Ship Building sector.

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A loss of BGN 787 thousand (BGN 763 thousand in the Ship Building sector and BGN 24 thousand in the Machine Building sector) due to impairment of receivables from customers, as also loss due to impairment of fixed tangible assets (ships) of BGN 1,000 thousand in the Maritime Transport sector, were reported over the period January - September 2018.

Finance income and finance costs for the reporting period:

In BGN'000

	30 September 2019	30 September 2018
Finance income		
Interest income	-	1
Foreign currency gains, net	1,199	677
	1,199	678
Finance costs		
Interest expenses	(1,321)	(1,568)
Interest expenses on debenture loan	-	(683)
Interest expenses on interest rate swap	(87)	(80)
Other finance costs	(159)	(134)
	(1,567)	(2,465)

Bank loans

Long-term

In BGN'000

	Currency	Interest rate, %	Maturity	30 September 2019	31 December 2018
Credit line for working capital amounting to BNG 3,000 thousand 7,000 thousand (2018 : BGN 7,000 thousand)	BGN	1 M EURIBOR +1.6%	2020	1,155	1,103
Secured bank loan amounting to USD 37,300 thousand: long-term portion	USD	1 M LIBOR + 1.5%	2022	20,248	25,681
Secured bank loan amounting to EUR 10,000 thousand: long-term portion	EUR	1.9%	2023	10,104	13,038
				31,507	39,822

Short-term

In BGN'000

	Currency	Interest rate, %	Maturity	30 September 2019	31 December 2018
Secured bank loan amounting to USD 37,300 thousand: short-term portion	USD	1 M LIBOR + 1.5%	2022	7,444	7,820
Secured bank loan amounting to EUR 10,000 thousand: short-term portion	EUR	1.9%	2023	3,920	3,922
Secured investment loan amounting to BGN 814 thousand: short-term portion	BGN	1 M EURIBOR +2.9% but not less than 2.9%	2019	-	20
				11,364	11,762

The bank loans are secured by mortgages on land and buildings, and registered pledges on plant, equipment and motor vehicles, including ships owned by the Group companies, with total carrying amount as at 30 September 2019 of BGN

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205,935 thousand (31 December 2018: BGN 206,072 thousand). In addition, KRZ Port Bourgas AD has been pledged as an entity.

As at 30 September 2019, the amount of the liabilities under bank loans from related parties according to IAS 24 amounted to BGN 27,692 thousand (2018: BGN 33,501 thousand). Further details are provided in the section Related Party Transactions.

As at 30 September 2019, the unutilized limits on bank loans of the Group amounted to BGN 5,483 thousand.

Since October 2019, the interest rate on the working capital financing credit line totalling to BGN 7,000 thousand was reduced to 1 M EURIBOR +1.5%.

The Group hedged its interest rate risk relating to the change in the 1M LIBOR rate, by contracting an interest rate swap transaction covering the risk upon payment of interest on a secured bank loan totalling to USD 37,300 thousand (hedge of 80% of cash flows). Under the swap contract, the Group pays a fixed interest rate of 2.88% and receives a variable interest rate (1M LIBOR), with the payments being made on a net basis. The maturity under the interest rate swap contract coincides with the loan maturity – December 2022.

Equity

Share capital - registered

The share capital is stated at nominal value according to the registration with the Commercial Register.

<i>In BGN'000</i>	30 September 2019	31 December 2018
107,400,643 ordinary shares with nominal amount of BGN 1 each	107,400	107,400
	107,400	107,400

The capital of the Group comprises 107,400,643 registered dematerialised voting shares with nominal amount of BGN 1 each that are listed for trading on Bulgarian Stock Exchange. The share capital is subscribed at its nominal amount and is paid in full. There is no preference shares or bearer's shares.

Shareholders

The shareholders of Industrial Holding Bulgaria PLC holding more than 5% of the company's capital as of 31 September 2019 are as follows:

<i>Shareholder</i>	Number of shares at 30 September 2019	30 September 2019
BULLS AD	37,608,121	35.02%
DZH AD	8,957,874	8.34%
Venside Enterprises	7,089,320	6.60%
Industrial Holding Bulgaria PLC*	5,928,921	5.52%
Others	47,816,407	44.52%
	107,400,643	100.00%

* *Treasury shares redeemed*

The total number of the treasury shares held as at 31 December 2018 is 3,462,184 for the total amount of BGN 3,308 thousand. Over the period 01 January 2019 – 30 September 2019, 5,928,921 treasury shares amounting to BGN 5,811 thousand were bought up. Pursuant to article 187a, paragraph 3 of the Commercial Act, the voting right attached to these shares has been suspended until their transfer.

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Related party disclosures according to IAS 24

The consolidated financial statements of the Group include the following companies:

	Country of registration	Equity interest	
		30 September 2019	31 December 2018
		%	%
Industrial Holding Bulgaria PLC	Bulgaria	Parent company	Parent company
Privat Engineering EAD	Bulgaria	100.00	100.00
ZMM Bulgaria Holding AD	Bulgaria	100.00	100.00
ZMM Sliven AD	Bulgaria	95.98	95.98
ZMM Nova Zagora AD	Bulgaria	93.57	93.57
IHB Metal Castings AD*	Bulgaria	100.00	100.00
IHB Electric AD	Bulgaria	97.87	97.87
KRZ Port Bourgas AD	Bulgaria	99.65	99.65
KLVK AD	Bulgaria	100.00	100.00
International Industrial Holding Bulgaria AG	Switzerland	100.00	100.00
Maritime Holding AD	Bulgaria	61.00	61.00
Bulgarian Register of Shipping EAD	Bulgaria	61.00	61.00
Bulyard Shipping Industry AD	Bulgaria	100.00	100.00
IHB Shipping Co EAD	Bulgaria	100.00	100.00
Emona LTD	Marshal Islands	100.00	100.00
Karvuna LTD	Marshal Islands	100.00	100.00
Odria LTD	Marshal Islands	100.00	100.00
Tirista LTD	Marshal Islands	100.00	100.00
Serdika LTD	Marshal Islands	100.00	100.00
Bulport Logistics AD	Bulgaria	100.00	100.00
Odessos PBM EAD	Bulgaria	100.00	100.00
IHB Shipdesign AD	Bulgaria	70.00	70.00

In view of the definitions contained in IAS 24, the Group deems that it has a related party relationship with the following companies:

I. Persons controlling the activities of the entity within the meaning of IAS 24

- Bulls AD, a company that at 30 September 2019 holds, directly and indirectly, through a subsidiary, 41.61% of Industrial Holding Bulgaria PLC, which in view of the scattered shareholding structure of Industrial Holding Bulgaria PLC as a former privatization fund with more than 50,000 shareholders and the quorums at the GMS during the last two years, has made it possible for Bulls AD to exercise a majority vote and de facto control over the GMS of Industrial Holding Bulgaria PLC;
- Dimitar Zhelev, an individual controlling Bulls AD and a husband of Daneta Zheleva, the Chief Executive Director of Industrial Holding Bulgaria PLC.

II. Key management personnel, including the Management and Supervisory Boards of the Company

III. Entities over which the persons exercising control within the meaning of IAS 24 (according to paragraph I) has joint control

IV. Entities over which the persons exercising control within the meaning of IAS 24 (according to paragraph I) has significant influence or are members of their key management personnel

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Related party transactions

Trade and other receivables from related parties

In BGN'000

	30 September 2019	31 December 2018
Entities under common control of the persons exercising control within the meaning of IAS 24	-	2
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	2	7
	2	9

Cash with banks – related parties

In BGN'000

	30 September 2019	31 December 2018
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	4,166	2,886
	4,166	2,886

Interest-bearing loans and borrowings from banks – related parties

In BGN'000

	30 September 2019	31 December 2018
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	27,692	33,501
	27,692	33,501

Loans from related parties (including interest)

In BGN'000

	30 September 2019	31 December 2018
Persons exercising control within the meaning of IAS 24	10,752	10,024
	10,752	10,024
Long-term portion	10,584	8,748
Short-term portion	168	1,276
Principal	10,692	9,995
Interest	60	29

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Trade and other payables to related parties

In BGN'000

	30 September 2019	31 December 2018
Entities under common control of the persons exercising control within the meaning of IAS 24	1	5
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	10	35
	11	40

Other liabilities (derivative financial liability) to banks – related parties

In BGN'000

	30 September 2019	31 December 2018
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	478	215
	478	215

Interest expenses accrued over the period January - September 2019 under the interest rate swap contract with a bank - related party amounts to BGN 87 thousand (01 January – 30 September 2018: BGN 80 thousand), and interest paid amounts to BGN 85 thousand (01 January – 30 September 2018: BGN 63 thousand).

Sale transactions

<i>In BGN'000</i>	Transaction type	30 September 2019	30 September 2018
Persons exercising control within the meaning of IAS 24	Sale of services	1	-
		1	-
Entities under common control of the persons exercising control within the meaning of IAS 24	Sale of assets held for sale	-	16,944
	Sale of services	8	-
	Other sales	92	-
		100	16,944
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	Sale of services	110	45
	Other sales	6	28
		116	73
		217	17,017

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In December 2017, management of IHB Electric AD announced an open bidding tender for the sale of a set of immovable properties – land property, together with the buildings built therein and the facilities permanently attached to them, as well as of contracts for construction works in the real estate. In February 2018, the General Meeting of Shareholders of the subsidiary granted approval for the sale of the assets. In March 2018, the sale transaction was finalised with a company under common control with the Group at a total price of BGN 16,944 thousand. The carrying amount of the assets sold was BGN 14,628 thousand (including also improvements made in 2018 amounting to BGN 374 thousand). The result of the transaction was a profit of BGN 2,316 thousand, recorded in the income statement.

Purchase transactions

<i>In BGN'000</i>	Transaction type	30 September 2019	30 September 2018
Entities under common control of the persons exercising control within the meaning of IAS 24	Purchase of materials	20	-
	Purchase of services	-	2
		20	2
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	Purchase of services	560	1,000
	Purchase of fixed assets	-	6
	Purchase of materials	-	2
		560	1,008
		580	1,010

Movements of interest-bearing loans and borrowings from banks – related parties

<i>In BGN'000</i>		Amounts received	Principal paid	Interest expenses	Interest paid
Entities over which the persons exercising control within the meaning of IAS 24 has significant influence or are members of their key management staff	30 September 2019	-	(7,311)	(906)	(929)
	30 September 2018	-	(8,157)	(1,081)	(1,016)
	30 September 2019	-	(7,311)	(906)	(929)
	30 September 2018	-	(8,157)	(1,081)	(1,016)

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Movements of loans from related parties

<i>In BGN'000</i>		<u>Amounts received</u>	<u>Principal paid</u>	<u>Interest expenses</u>	<u>Interest paid</u>
Persons exercising control within the meaning of IAS 24	30 September 2019	845	(350)	(184)	(153)
Persons exercising control within the meaning of IAS 24	30 September 2018	7,099	(19,276)	(246)	(303)
	30 September 2019	845	(350)	(184)	(153)
	30 September 2018	7,099	(19,276)	(246)	(303)

Movements of debenture loan from related parties

<i>In BGN'000</i>		<u>Amounts converted in shares</u>	<u>Amounts paid</u>	<u>Interest expenses</u>	<u>Interest paid</u>
Persons exercising control within the meaning of IAS 24	30 September 2019	-	-	-	-
Persons exercising control within the meaning of IAS 24	30 September 2018	(24,570)	(6,940)	(430)	(785)
Key management staff	30 September 2019	-	-	-	-
Key management staff	30 September 2018	-	(30)	-	-
Entities under common control of the persons exercising control within the meaning of IAS 24	30 September 2019	-	-	-	-
Entities under common control of the persons exercising control within the meaning of IAS 24	30 September 2018	(4,225)	-	(58)	(106)
	30 September 2019	-	-	-	-
	30 September 2018	(28,795)	(6,970)	(488)	(891)

Other finance costs

In BGN'000

Entities over which the persons exercising control within the meaning of IAS 24 (according to paragraph I) has significant influence or are members of their key management staff

	<u>30 September 2019</u>	<u>30 September 2018</u>
	116	105

Terms and conditions of related party transactions

The sales to and purchases from related parties are made at contractual prices. Outstanding balances at the year-end are unsecured (except for loans), interest free (except for loans) and the settlement is made in cash. There have been no guarantees provided to or received for related party payables or receivables, except for the ones listed below. For the period ended 30 September 2019 (31 December 2018: Nil), the Group had not written down related party receivables. A review for impairment is made every financial year through examining the financial position of the related party and the market in which the related party operates.

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Commitments and contingencies

Legal claims

No significant legal claims have been brought against the Group.

Guarantees

Guarantees

According to a contract signed with a commercial bank for granting a credit limit for issuance of bank guarantees, letters of credit and working capital financing of the Holding and/or Group entities with a limit of BGN 10,000 thousand, as at 30 September 2019:

- bank guarantees amounting to BGN 254 thousand (31 December 2018: BGN 294 thousand) were issued to the following Group companies: **KRZ Port Bourgas AD**, **IHB Electric AD**, **Bulyard Shipping Industry AD**, **Odessos PBM EAD**, **ZMM Sliven AD**, **ZMM Nova Zagora AD**, and **IHB Metal Castings AD**,
- a letter of guarantee was issued to cover a liability of **KRZ Port Bourgas AD** amounting to BGN 3,000 thousand (31 December 2018: Nil);
- a letter of credit for BGN 108 thousand (31 December 2018: Nil) was issued;
- a revolving credit line for working capital financing was opened amounting to BGN 7,000 thousand (31 December 2018: BGN 7,000 thousand). As of 30 September 2019, the amounts utilised under revolving credit line for working capital financing by the subsidiary ZMM Sliven AD was BGN 265 thousand, by Odessos PBM EAD - BGN 300 thousand, by KRZ Port Bourgas AD – BGN 115 thousand, and by ZMM Nova Zagora AD – BGN 475 thousand.

As of 30 September 2019, the unutilized limit under this contract for provision of a credit limit amounted to BGN 5,483 thousand.

The contract with the bank is secured by a registered pledge on the commercial enterprise of KRZ Port Bourgas AD as a combination of rights, obligations and factual relations, with registration of the main assets with the respective registries.

Collateral

In connection with a contract concluded to secure a bank loan of the total amount of EUR 10,000 thousand, obtained for the purpose of partial financing of a debenture loan, Industrial Holding Bulgaria PLC and the entities-guarantors under the loan signed financial collateral agreements through a pledge of receivables providing for a right of use over all their accounts with the bank-creditor in an amount that should be at least equal to the loan liability, but not more than EUR 10,000 thousand.

Non-systematic group specific risks

Risks associated with the structure of the Group's portfolio

The Group's investments are focused on industries characterised by slow rotation of funds invested (machine-building), dependency on energy and other resources (machine-building, ship repair, maritime transport) and high cyclicality (ship repair, shop design, maritime transport, classification and certification, port activity), thus reducing the level of return.

Risks arising from the development of the global economy and trade

The state of the global economy and demand for raw materials underpin the development of trade and all industries in the IHB's investment portfolio are the most important impact on shipping industry. Stress on the infrastructure market and pressure on the freight have a number of divergent factors:

- cyclicality of the shipping industry – cycles are linked to the global economy and the balance between the proposed shipping tonnage and the needs of exporters and importers. Risk exists for operators who have failed to

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properly plan and distribute their cash flows at a time of difficult access to finance under aggravated conditions during crisis;

- number of ships in construction and entry into service and state of the ship cutting market - low growth rate of old ships combined with a large number of newly built and put on water ships and tonnage in operation leads to oversupply;
- increased environmental restrictions – the introduction of new eco-norms and directives on environmental pollution and energy savings for vessels imposes mandatory reconstructions of vessels to comply with eco-norms and shortens the time of operation of ships;
- global fuel problems - on the one hand, oil can be a cause of conflict and, on the other hand, the price and availability of it can be a cause of erosion or a fall in the freight market, as marine fuels are the main raw material in the industry and stock commodity;
- development potential – stems from major infrastructure projects, major investments in the gas and oil sectors, etc.

Risk of political instability in traditional markets and regions, military activities and/or penalties imposed

This risk stems from future changes in economic policy imposed by objective economic or political circumstances - continuing war conflicts around the world, political uncertainty in many places, sanctions and restrictions imposed on trade with a number of countries. The exodus of refugees toward Europe and in particular, toward Bulgaria, as an EU external border, is a negative result of these processes as well. This risk mainly affects maritime and port business as it impedes the free movement of goods and leads to a change in trade flows and transport corridors, and hampers the access of registry inspectors to supervised vessels. Additionally, the risk also affects the machine building industry by reducing sales volumes on traditional markets.

Risks relating to environment legislation

The legislation of the Republic of Bulgaria on ecology implies compliance with a number of measures on prevention, control and reduction of various types of environmental pollution. The Group's policy is to comply with all regulatory obligations in this respect, which is linked to fixed investments for the alignment and maintenance of facilities and processes in accordance with the required standards and norms. All investment projects are also in line with environmental protection requirements.

Risks relating to attracting and retaining experienced and qualified employees

Given the problems with the effectiveness and relevance of the education system in Bulgaria and the demographic collapse in the country, many sectors of the national economy are experiencing a capacity crunch. Employees' professional qualities affect directly entity's financial results and innovation performance. The risk is reinforced by the convertible nature of some professions, their shortage and high worldwide demand for such staff (professionally trained and motivated seamen and officers, registry inspectors, engineering personnel and specialist workers – welders, hull workers (hull fitters), pipe fitters, etc.). Competition among employers is high. The most affected segments are that of machine building, experiencing a serious shortage of mid-level specialists and engineers, maritime transport, ship repair segments. Management has adopted a long-term approach to human resource management related to preliminary and subsequent qualification of staff, as well as a close cooperation with the academic society in the country.

Credit risk

The credit risk is the risk of possible financial loss if a client or a party to a financial instrument fails to perform its contractual obligations. The risk is mainly related to receivables from clients and investments in other financial assets.

Receivables from clients – The Group's credit risk exposure depends on the customer's individual characteristics that differ between sectors. The most affected segments are that of shipbuilding, ship design, classification and certification, and port activities. The Group's credit policy provides for that each new client shall be investigated for solvency before

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being offered the standard delivery and payment terms and conditions. Besides the price offered, when selecting a potential client or a charterer managers consider its credit rating, reputation, popularity, recommendations, etc.

Investments – The Group invests mainly in businesses and companies where the Holding holds the control and power to determine their development strategy. With respect to portfolio investments, the ambition is to invest in liquid securities. Part of investments are made over considerable periods of time, during which it is possible that the Group will receive a very limited yield, lower profits, and may even experience losses.

Guarantees - It is a policy of the Group to issue financial guarantees only to subsidiaries and only after obtaining the preliminary approval of the managing bodies. There is a risk that the guarantees may be utilised in the event of non-performance of the covered liabilities.

Liquidity risk

Liquidity risk is the probability that the Group will be unable to meet all its obligations when they become due. Such risk may arise in case of delayed payments by clients. The Group companies elaborate financial planning to cover their expenses and current payables for a period of 90 days, including settlement of financial liabilities. Where possible, a deferred payment to suppliers and subcontractors is applied in combination with the above measures, but without affecting negatively their businesses. The Holding's management supports the Group companies' efforts towards attracting bank financing for investments and capacity utilization in the form of revolving credits for working capital in support of production. The attracted volumes of funds are maintained at pre-determined levels and approved only after their economic effectiveness for each company has been proven.

The management's policy has been directed towards accumulation of fresh resource from the market – in the form of shares/stocks, debentures or other financial instruments, to be invested in the subsidiaries in two directions: granting of loans to Group companies to be used to finance their projects and acquiring shares of their capital, incl. subscribing shares from capital increases.

Currency risk

Some of the Group companies are exposed to currency risk as they perform purchases and/or sales and/or receive loans in currencies, other than the functional currency. Aiming at minimising the Group's exposure to currency risk, the Holding's management minimised the payments in foreign currencies other than the functional currency in the operating activity of most companies. The goal is that transactions with customers and suppliers are agreed primarily in BGN and EUR for the companies the functional currency of which is the Bulgarian lev and in USD for the ship companies, as USD is the main currency, in which the ship business operates. The increase in the revenue share from foreign ships in total sales strengthens the impact of currency risk on the financial results of the ship register.

Interest rate risk

The Group companies are exposed to interest rate risk in the cases of financing whose cost includes a floating interest component plus margin. In managing this risk, the management seeks either to negotiate fixed-rate loans or to enter into hedging transactions in order to minimise the impact of changes in the floating interest component.

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Trends for business in which Group companies operate

Maritime transport

Maritime transport develops upwards throughout 2019. Following the decline in 2018 and the bottom level hit in February 2019, a gradual recovery began and the levels in all sectors of bulk cargo increased. In the second quarter, and especially in the third quarter, we witnessed good levels of the market that have not been reached in the last few years. It is expected that this positive trend will continue until the end of the year. The big concern of the market is the entry into force of new fuel requirements from the beginning of next year. The ships of the Group are prepared for these new requirements. In January 2020, a ballast system is to be mounted in m/v Karvuna in Bulyard Shipping Industry.

Factors influencing the market are diverging. The state of the global economy, the trade war between the two strongest countries in terms of economics, the many local conflicts and the numerous sanctions imposed are a worry. Specifically, it is expected that the entry into force of the new conventions on ballast water treatment and reduction of sulphur content in fuels will have a positive effect on the Group's Maritime Transport sector. In order to comply with these conventions, it is necessary to make investments which are to result in the scrapping of old and inefficient ships. Contracts for new ships are also at low levels. These two factors are expected to lead to fewer ships in operation and an increase in cargo freight rates.

Shipbuilding and ship repair

The ship repair in 2019 has increased its volume compared to the previous year in connection with the implementation of the new requirements to ship owners. A new requirement on controlled sulphur contents in fuels is expected to come into force in 2020. On the other hand, the convention on ballast waters is already in force. As a result, the repairs carried out in the coming years will also include re-equipment of ships, taking longer periods and involving higher costs. Expectations are for growth in both repairs and revenue.

The aim of **Bulyard Shipping Industry** is to increase the employment of its production capacity by ship repair and production of metal structures. Metal structures construction projects are also being implemented that could ensure scheduled workloads for the capacity other than ship repair.

Ship design

In the last few years, there has been an increased demand for ship design and repair services for retrofite, renovation, conversion and addition of new equipment to existing ships.

In the past nine months of 2019, **IHB Shipdesign** has been working on new projects, using market upgrades and good opportunities, increasing the team of experts of the company and expanding the volume of shipping design services for both cargo and passenger, as well as for cruise and specialist ships. In the current 2019, the company will continue to develop in the area of the so-called „reverse engineering”, retrofite и 3D laser scanning.

The development trends of IHB Shipdesign in the next few years relate to the following:

- approbation of the company as a reliable partner in the field of engineering services related to the implementation of ballast water treatment systems and scrubbers. Although there has been a tangible increase in the search for services by companies that need scanning of vessels and preparing documentation for bringing ships under the new requirements, the boom of vessel re-equipment is still pending. The company's team has gained experience in such projects and continues to present its services in the specific area.
- opportunities for future developments resulting from increasing restrictions on air pollution from marine fuels. A new convention on emissions of harmful sulphur emissions comes into force since 2020. There are also strict requirements for pollution of the atmosphere with nitrogen oxides. The owners of ships in operation will be faced with a choice whether to repair their vessels in order to switch from heavy to slightly diesel fuel or to supply their vessels with cleaning (the so-called scrubber) systems to enable them to use a heavy fuel;
- increasing the complexity of the services offered by the company - the intention is to take complex orders with the full volume of design services (hull-outfitting machines and mechanisms), increasing the proportion of conceptual and technical design to work;

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- maintaining of trends for restoration of the market of ships serving offshore floating facilities, entry and deployment in the design of oil platforms and other specialised floating facilities;
- striving for entry into new areas related to design of equipment and constructions of pipelines, gas mains, etc. in industrial construction;
- penetration into new markets with highly specialised engineering researches, including calculations of the ship as a corpus, seaworthy, resistance to flooding, calculations of the strength and thermal calculations.
- establishment of the trend of construction of new cruise ferries, Ro-Ro and Ro-Pax ships especially in the Scandinavian market, apart from the French market that is the main market for us.

Classification and certification

The Bulgarian Register of Shipping (BRS) reported growth in the first nine months of 2019 in the number of small vessels registered under the Bulgarian flag. The tendency for the coming months of the year is that BRS will be the leader in carrying out inspections of small vessels for the Varna region.

In the most recent publication of the Paris Memorandum on the Representation of the Recognized Organizations, BRS has preserved its position as an average performer for the fourth consecutive year and reported improvements in performance indicators and a better level in the table, which is a prerequisite for finding new clients and applying for approval from new Flag Administrations.

The procedure for recognizing BSR by the Honduras Administration is in the stage of concluding a contract. The management's efforts are directed towards finding new agents, attracting new ship owners, developing and offering of auxiliary services in addition to the key ones.

Port activity

The trends and prospects for development of Bulgarian ports depend on the economic situation in the countries of Mediterranean and Black Sea regions, in the country and the region.

KRZ Port Bourgas and Odessos PBM ports are of regional importance and their workload reflects the level of competitiveness and the economic situation of the South-eastern and Northeast regions of Bulgaria, in particular the industries of construction, agriculture, extraction of aggregates and infrastructure projects. Their activity is dependent on the seasonality of some types of cargo.

The policy of **KRZ Port Bourgas** aims at attracting new load flows and customers and developing port infrastructure. The activity of the company is developing in the direction of growth of the turnover of cereals related to the trend towards an increase in agricultural activity in South and South-eastern Bulgaria. In 2019, the Company enlarged its storage facilities aiming at achieving a narrower specialisation and larger volumes of processed cereals; new cereal storage warehouses of a total capacity of 6 thousand tons were commissioned. The implementation of the approved plan for the expansion of the port has begun.

The efforts of the management of **Odessos PBM** are aimed at attracting new freight flows, general and bulk goods, as well as creating new storage areas for the purpose of offering more effective and complete services. With the introduction of an electronic cargo processing system, customers are provided with accurate and timely information on the progress of their services. All technological options for working with modality of railway transport have been implemented. The investments made and the optimised management of the overload operations allow an increase of the share of the general cargo processed through the quay. New opportunities for increasing the share of transit cargo are sought as well. Work is underway to implement the Master Plan for the expansion of the existing port.

Bulport Logistics offers services in the field of small and mid-sized vessels and yachts mooring, ships docking for repair, as well as the rental of premises and areas for storage and production activity. The management of the port has been able to attract new customers, the number of repairs of small vessels, including those with specific maintenance, has increased. The renovation of the administrative building of the company and its surrounding areas and buildings was completed in stages. Currently, part of the building is leased out, which has led to an increase in rental income from offices in the first quarter of the year. The company's strategy is to improve the infrastructure and technical condition of existing buildings and sites, and to attract, through active promotional campaigns, new customers in the coming years.

Machine building

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The demand for metal cutting machines can be defined as relatively constant over a longer period, with cycles in every 3-4 years. This is driven by the fact that the products are of a long life-cycle and are sold to a wide range of customers both from a geographical point of view and from the point of view of the type of machinery and their use. The current economic situation in the relevant market has a significant impact. Oil and gas price fluctuations also influence, particularly on the demand for metal cutting machines from Russia and the US, as well as other countries of North Africa, the Near and Middle East. The increase in prices during the last few months affects positively, although slightly, the market.

In the third quarter of 2019, Europe's market demand slowed down compared to a very strong 2018 period. Some countries, such as Austria, Spain, Belgium, Poland, Portugal, France, etc, scored a growth. There was a decline in countries, such as Turkey, Germany, Russia, and USA.

The consistent development of the relations and cooperation of **ZMM Bulgaria Holding** with its traditional long-term partners, as well as the continued efforts to develop relations with new customers, have played an important part in obtaining these results in the third quarter of 2019. The latter is imperative against the background of the unstable political environment in many places around the world, which has a significant impact on the investment activity of companies.

The management's efforts in the coming years are focused on:

- preserving market positions gained, trading activity to search for new markets, and developing markets with potential;

In this respect, the EMO Hannover 2019 and the numerous meetings held with traditional and new partners will play a positive role;

Positive effect is expected from the two exhibitions, which are to be held by the end of the year - in Cairo and Madrid.

- greater flexibility in pricing policy in order to increase market demand and ensure the production process, an optimal volume of procurement to ensure the profitability of production and stabilise the workforce;
- technological renovation of production;
- development of the range of manufactured machinery by developing new models and nodes, optimising the different types of lathes according to the trend of increasing the heavier lathes, increased attention to the production of digital machines;
- improving the organization of trading in spare parts, which is a substantial precondition to achieve customers' satisfaction;
- strengthening relationships with providers of key strategic components;
- constant maintaining qualitative indicators corresponding to the maximum of European criteria - the high quality of company production is a constant task for the whole team.

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INFORMATION PURSUANT TO APPENDIX 9 TO ORDINANCE 2 ON THE PROSPECTUSES TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING ON A REGULATED MARKET AND ON DISCLOSURE OF INFORMATION

Change in individuals exercising control over the company

There were no changes in the persons exercising control over the Company at 30 September 2019.

As at 30 September 2019, Industrial Holding Bulgaria PLC had information about the following shareholders holding more than 5% of the votes at the General Meeting, as follows:

1. BULLS AD

Number of voting shares and their share of the votes at the General Meeting of Shareholders of the company:

As at 30 September 2019: 37,608,121 shares representing 35.02% of votes held directly

2. Venside Enterprises Limited

Number of voting shares and their share of the votes at the General Meeting of Shareholders of the company:

As at 30 September 2019: 7,089,320 shares representing 06.60 % of votes held directly

Bulls AD own 100% from the capital of Venside Enterprises Ltd and control its shares.

3. DZH AD

Number of voting shares and their share of the votes at the General Meeting of Shareholders of the company:

As at 30 September 2019: 8,957,874 shares representing 8.34% of votes

4. Daneta Angelova Zheleva

Number of voting shares and their share of the votes at the General Meeting of Shareholders of the company:

As at 30 September 2019: 41,044 shares held directly, representing 0.03% of votes, directly and through related parties: a total of 8,999,564 shares representing 8.37% of votes.

5. Dimitar Georgiev Zhelev

Number of voting shares and their share of the votes at the General Meeting of Shareholders of the company:

As at 30 September 2019: 646 shares held directly, representing 0.0006% of votes, directly and through related parties - a total of 8,999,564 shares representing 8.37% of votes, and controlled through Venside Enterprises Ltd and Bulls AD: a total of 44,697,441 shares, representing 41.62% of votes

Dimitar Georgiev Zhelev controls Bulls AD and Venside Enterprises Limited and the votes directly held by these entities.

Dimitar Zhelev and Daneta Zheleva are spouses.

The shares of the other shareholders, in view of the scattered shareholding structure of Industrial Holding Bulgaria PLC as a former privatisation fund (with more than 50,000 shareholders) and the quorums at the General Meeting of Shareholders over the last two years, have allowed that a majority vote and de facto control within the meaning of IAS 24 is exercised by Bulls AD and Venside Enterprises Limited at the GMS of Industrial Holding Bulgaria PLC.

On 22 February 2019, IHB received a notification on the disclosure of shareholding in a public company in accordance with Article 145 POSA from POD Allianz Bulgaria. The notification was about a change in voting rights vested by shares

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issued by IHB, namely a decrease in the number of voting rights to 4.99 %. As a date, on which the voting right of the person fell below the limits, was stated the date of 18 February 2019. As at 31 December 2018, POD Allianz Bulgaria held 5,379,344 shares, representing 5.01%.

As at 30 September 2019, IHB held 5,928,921 redeemed treasury shares representing 5.52 % of the Company's capital; pursuant to article 187a, paragraph 3 of the Commercial Act, the voting right attached to these shares has been suspended until their transfer.

Initiation of bankruptcy proceedings in respect of the Company or its subsidiary and all significant stages relating to the proceedings

There is no such circumstance.

Conclusion or performance of significant transactions

N/A

Decision for conclusion, termination and cancellation of a joint venture contract

There is no such circumstance.

Change in the Company's auditors and reasons for the change

The General Meeting of Shareholders held on 20 June 2019 appointed AFA OOD as the Company's registered auditor for 2019. The current auditor of IHB, Ernst & Young Audit OOD, has carried out audit engagements for 7 consecutive years since the date of its appointment by GMS's decision dated 30 June 2012. Pursuant to the provision of article 65, paragraph 3 of the Independent Financial Audit Act, Ernst & Young Audit OOD should withdraw and that is why, the Company's auditor has been changed.

Initiation or termination of court or arbitration proceedings relating to liabilities or receivables of the Company or its subsidiary with a price of the claim of at least 10 per cent of the Company's equity

N/A

Purchase of, sale of or pledge imposed on shares of commercial companies by the issuer or its subsidiary

There has been no such circumstance during the past quarter.

Other circumstances deemed by the Company as being of importance to the investors in taking a decision to acquire or to continue to hold publicly offered securities

N/A

These notes have been prepared in accordance with the requirements of Art. 100o¹, par. 4 with reference to Art. 2 of POSA.

Daneta Zheleva

Chief Executive Officer

Industrial Holding Bulgaria PLC

Ivan Rashkov

Chief Accountant

Vladislava Zgureva

Investor Relations Director