



**ИНДУСТРИАЛЕН ХОЛДИНГ БЪЛГАРИЯ**

**INDUSTRIAL HOLDING BULGARIA PLC**

**PUBLIC NOTIFICATION FOR FINANCIAL POSITION**

**31 December 2019**

**INDUSTRIAL HOLDING BULGARIA PLC**  
**PUBLIC NOTIFICATION FOR FINANCIAL POSITION**

For the period ended 31 December 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. The company has a two-tier system of governance, comprising Supervisory Board and Management Board.

The scope of activity of the Company includes acquisition, management, assessment and sale of shares in Bulgarian and foreign companies, acquisition, assessment and sale of patents, cession of licenses to use patents to companies in which the Company holds shares, financing of companies in which the Company holds shares, as well as any other activity not prohibited by law.

The duration of the Company shall be perpetual and the Company is not limited by other resolute condition.

The Company is entered into the Commercial Register at the Registry Agency with Identification Code 121631219. The Company is registered in compliance with the Law on Value Added Tax. The shares of the Company are listed on Bulgarian Stock Exchange AD, Sofia.

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**NOTES**

**Separate Statement of Comprehensive Income**

<i>BGN'000</i>	<u>2019</u>	<u>2018</u>
Interest and dividend income	13,357	7,952
Other operating income	69	7
	<u>13,426</u>	<u>7,959</u>
Costs of personnel	(583)	(606)
Costs of hired services	(153)	(279)
Other operating expenses	(294)	(191)
	<u>12,396</u>	<u>6,883</u>
<b>Operating profit</b>	<b>12,396</b>	<b>6,883</b>
Finance costs	(344)	(991)
Finance income	-	-
	<u>12,052</u>	<u>5,892</u>
<b>Profit before tax</b>	<b>12,052</b>	<b>5,892</b>
Income tax (expense) / benefit	1	(1)
<b>Profit for the year</b>	<u>12,053</u>	<u>5,891</u>
<b>Other comprehensive income / (loss)</b>		
<i>Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods</i>		
Actuarial losses on defined benefit plans	(2)	(2)
Income tax effect	-	-
	<u>(2)</u>	<u>(2)</u>
<b>Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods, net of taxes</b>	<b>(2)</b>	<b>(2)</b>
<b>Other comprehensive income/(loss) for the year, net of taxes</b>	<u>(2)</u>	<u>(2)</u>
<b>Total comprehensive income for the year, net of taxes</b>	<u>12,051</u>	<u>5,889</u>

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**Separate Statement of Financial Position**

<i>BGN'000</i>	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Non – current assets</b>		
Non-current tangible and intangible assets	120	174
Right-to-use assets	963	-
Investments in subsidiaries	203,599	203,599
Loans to related parties	46,504	50,593
Differed tax asset	3	2
<b>Total non-current assets</b>	<u><b>251,189</b></u>	<u><b>254,368</b></u>
<b>Current assets</b>		
Loans to related parties	5,619	108
Trade and other receivables	12	384
Cash and cash equivalents	1,659	483
Income tax receivable	-	-
<b>Total current assets</b>	<u><b>7,290</b></u>	<u><b>975</b></u>
<b>TOTAL ASSETS</b>	<u><b>258,479</b></u>	<u><b>255,343</b></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	107,400	107,400
Share premium	30,604	30,604
Treasury shares redeemed	(6,536)	(3,308)
Statutory and other reserves	9,661	9,661
Retained earnings	102,772	90,721
<b>Total equity</b>	<u><b>243,901</b></u>	<u><b>235,078</b></u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	9,126	13,038
Lease liabilities	817	-
Retirement benefit liabilities	25	22
<b>Total non-current liabilities</b>	<u><b>9,968</b></u>	<u><b>13,060</b></u>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	3,920	3,922
Lease liabilities	155	-
Deposits from related parties	486	3,237
Trade and other payables	49	46
<b>Total current liabilities</b>	<u><b>4,610</b></u>	<u><b>7,205</b></u>
<b>Total liabilities</b>	<u><b>14,578</b></u>	<u><b>20,265</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><b>258,479</b></u>	<u><b>255,343</b></u>

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**Separate Statement of Cash Flows**

<i>BGN'000</i>	<u>2019</u>	<u>2018</u>
<b>Operating activity</b>		
Proceeds from customers	83	-
Dividends received	4,565	4,605
Cash loans repaid to related parties	3,957	7,143
Cash loans granted to related parties	(1,595)	(7,514)
Interest received on loans granted to related parties	1,171	1,086
Remuneration related payments	(584)	(603)
Payments to suppliers and others	(238)	(418)
<b>Net cash flows (used in) / from operating activity</b>	<b>7,359</b>	<b>4,299</b>
<b>Investing activity</b>		
Purchase of property, plant and equipment	(11)	(4)
<b>Net cash flows used in investing activity</b>	<b>(11)</b>	<b>(4)</b>
<b>Financing activity</b>		
(Payments on) / Proceeds from redemption of treasury shares, net	(3,228)	(2,950)
Principal paid on debenture loan	-	(20,000)
Interest and charges paid on debentures	-	(1,246)
Bank loan received	-	19,558
Principal paid on bank loan	(3,912)	(2,608)
Interest paid on bank loan	(288)	(250)
Charges paid on bank loan	(17)	(17)
Liabilities paid under lease contracts	(147)	-
Interest paid under lease contracts	(15)	-
Deposits from related parties	1,443	3,732
Deposits released to related parties	-	(150)
Interest paid on deposits from related parties	(4)	(11)
Other proceeds and payments	(4)	(13)
<b>Net cash flows from / (used in) financing activity</b>	<b>(6,172)</b>	<b>(3,955)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>1,176</b>	<b>340</b>
Cash and cash equivalents on 1 January	483	143
<b>Cash and cash equivalents on 31 December</b>	<b>1,659</b>	<b>483</b>

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**Separate Statement of Changes in Equity**

<i>BGN'000</i>	Share capital	Share premium	Treasury shares redeemed	Statutory and additional reserves	Retained earnings	Total
<b>Balance as at 1 January 2018</b>	<b>77,400</b>	<b>30,604</b>	<b>(346)</b>	<b>9,661</b>	<b>84,820</b>	<b>202,139</b>
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	5,891	5,891
Other comprehensive income for the year	-	-	-	-	(2)	(2)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,889</b>	<b>5,889</b>
<b>Transactions with shareholders recognised in equity</b>						
Capital increase	30,000	-	-	-	-	30,000
Treasury shares redeemed	-	-	(2,962)	-	12	(2,950)
<b>Total transactions with shareholders</b>	<b>30,000</b>	<b>-</b>	<b>(2,962)</b>	<b>-</b>	<b>12</b>	<b>27,050</b>
<b>Balance as at 31 December 2018</b>	<b>107,400</b>	<b>30,604</b>	<b>(3,308)</b>	<b>9,661</b>	<b>90,721</b>	<b>235,078</b>
<b>Balance as at 1 January 2019</b>	<b>107,400</b>	<b>30,604</b>	<b>(3,308)</b>	<b>9,661</b>	<b>90,721</b>	<b>235,078</b>
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	12,053	12,053
Other comprehensive income for the year	-	-	-	-	(2)	(2)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,051</b>	<b>12,051</b>
<b>Transactions with shareholders recognised in equity</b>						
Treasury shares redeemed	-	-	(3,228)	-	-	(3,228)
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>(3,228)</b>	<b>-</b>	<b>-</b>	<b>(3,228)</b>
<b>Balance as at 31 December 2019</b>	<b>107,400</b>	<b>30,604</b>	<b>(6,536)</b>	<b>9,661</b>	<b>102,772</b>	<b>243,901</b>

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**Interest and dividend income**

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Dividend income	12,081	6,593
Interest income	1,276	1,359
	<b>13,357</b>	<b>7,952</b>

Dividend income of BGN 12,081 thousand (31 December 2018: BGN 6,593 thousand) was reported as at 31 December 2019, distributed by:

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
ZMM Bulgaria Holding AD	8,455	3,372
KRZ Port Burgas AD	1,405	1,405
IHB Shipdesign AD	1,103	353
Odessos PBM EAD	1,003	1,373
Maritime Holding AD	115	90
	<b>12,081</b>	<b>6,593</b>

The YoY growth in dividends as at 31 December 2019 from ZMM Bulgaria Holding AD is primarily due to dividend distributions to ZMM Bulgaria Holding AD made by its subsidiaries.

Interest income amounts to BGN 1,276 thousand (31 December 2018: BGN 1,359 thousand) and originates from interest-bearing receivables from subsidiaries on cash loans granted.

**Finance costs**

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Interest expenses on debenture loans ISIN BG 2100003156	-	(683)
Interest expenses on bank loans	(286)	(260)
Interest expenses on lease contracts	(15)	-
Interest expenses on deposits from related parties, etc.	(21)	(18)
Charges bank loans	(17)	(17)
Foreign currency losses	-	(8)
Other finance costs	(5)	(5)
	<b>(344)</b>	<b>(991)</b>

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**Income tax**

The Company owes no income taxes for 2019 and 2018.

The reconciliation of income tax expenses and the accounting profit multiplied by the applicable rate for the periods ended 31 December 2019 and 31 December 2018 is as follows:

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Accounting profit before taxes</b>	<b>12,052</b>	<b>5,892</b>
Income tax expense at the applicable tax rate of 10% for 2019 (2018: 10%)	(1,205)	(589)
Income exempted from tax – dividends	1,208	659
Non-deductible expenses	-	(3)
Tax loss, for which tax asset is not recognized	(2)	(68)
	<b>1</b>	<b>(1)</b>
<b>Income tax benefit / (expense) at an effective tax rate of 0% (2018: 0% )</b>	<b>1</b>	<b>(1)</b>

As at 31 December 2019, the Company reported a deferred tax asset amounting to BGN 2 thousand (at 31 December 2018: BGN 2 thousand) on retirement benefit liabilities accrued.

**Right-to-use assets**

*BGN'000*

<b>Book value as at 31 December 2018</b>	-
Recognition of an asset from the initial adoption of IFRS 16	772
Increases	347
Depreciation expenses	(156)
<b>Book value as at 31 December 2019</b>	<b>963</b>

**Lease liabilities**

*BGN'000*

<b>Book value as at 31 December 2018</b>	-
Recognition of an asset from the initial adoption of IFRS 16	772
Increases	347
Lease payments	(162)
Interest expenses	15
<b>Book value as at 31 December 2019</b>	<b>972</b>
-long-term portion	817
-short-term portion	155



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**Investments in subsidiaries**

Investments, held by the Company as of 31 December 2019 and 31 December 2018, were as follows:

<i>BGN'000</i>	Country of incorporation	31 December 2019		31 December 2018	
		Share amount	Share percentage	Share amount	Share percentage
ZMM Bulgaria Holding AD	Bulgaria	7,885	99.998	7,885	99.998
Privat Engineering EAD	Bulgaria	57,220	100.000	57,220	100.000
KRZ Port Bourgas AD	Bulgaria	4,774	99.650	4,774	99.650
Maritime Holding AD	Bulgaria	400	61.000	400	61.000
International Industrial Holding Bulgaria AG	Switzerland	130	100.000	130	100.000
KLVK AD	Bulgaria	46,096	67.960	46,096	67.960
IHB Shipdesign AD	Bulgaria	70	70.000	70	70.000
Bulyard Shipping Industry AD	Bulgaria	63,371	95.890	63,371	95.890
Odessos PBM EAD	Bulgaria	23,653	100.000	23,653	100.000
		<b>203,599</b>		<b>203,599</b>	

The Company holds also 2 shares of the capital of IHB METAL CASTINGS AD, a subsidiary of ZMM Bulgaria Holding AD.

**Interest-bearing loans and borrowings**

<i>BGN'000</i>	31 December 2019	31 December 2018
Payables on loans from financial institutions	13,046	16,960
	<b>13,046</b>	<b>16,960</b>
long-term portion	9,126	13,038
short-term portion	3,920	3,922

In March 2018, Industrial Holding Bulgaria AD signed a bank loan agreement amounting to EUR 10,000 thousand for the purposes to refinance part of the debenture loan. The total loan was utilised on 04 April 2018. The loan expires on 30 April 2023 and is to be repaid in equal instalments with effect from May 2018. A fixed interest rate of 1.9% p.a. was agreed. Guarantors on the contract are subsidiaries. The contract is secured by mortgages on real estate (land and buildings) of a subsidiary.

**Equity**

*Share capital - registered*

The share capital is stated at par according to the court registration.

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

The company's capital 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.

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*Shareholders*

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

<i>Shareholder</i>	<b>Number of shares as at 31 December 2019</b>	<b>31 December 2019</b>
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*	6,648,222	6.19%
Others	47,097,106	43.85%
	<b><u>107,400,643</u></b>	<b><u>100.00%</u></b>

\* *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 – 31 December 2019, 3,186,038 treasury shares amounting to BGN 3,228 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**

The Company is of the opinion that in accordance with the definitions of IAS 24 it is a related party with:

*I. Persons exercising control within the meaning of IAS 24*

- Bulls AD, a company that holds directly and indirectly through a subsidiary 41.62% of the shares of Industrial Holding Bulgaria PLC, which has allowed, 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 (GMS) over the last two years, a majority vote and de facto control to be exercised at the GMS of Industrial Holding Bulgaria PLC;
- Dimitar Zhelev, a person exercising control over Bulls AD and husband of Daneta Zheleva, the Chief Executive Officer of Industrial Holding Bulgaria PLC.

The judgement as to whether control is exercised, as described above, is subject to regular review.

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

*III. Entities under the joint control of the Persons exercising control within the meaning of IAS 24 (under item I)*

*IV. Entities, over which the persons that have control within the meaning of IAS 24 (under item I) also exercise significant influence or are members of their key management personnel*

*V. Subsidiaries*

- *Subsidiaries in which the Company holds direct control*

The direct subsidiaries of Industrial Holding Bulgaria PLC as at 31 December 2019 and 31 December 2018 are disclosed in *Investments in subsidiaries*.

- *Subsidiaries in which the Company holds indirect control*

IHB Electric AD, IHB Metal Castings AD, and ZMM Nova Zagora are indirect subsidiaries of Industrial Holding Bulgaria PLC because they are subsidiaries of ZMM Bulgaria Holding AD, a direct subsidiary of Industrial Holding Bulgaria PLC. Emona Ltd., Karvuna Ltd., Tirista Ltd. and IHB Shipping CO EAD are indirect subsidiaries of Industrial Holding Bulgaria PLC because they are subsidiaries of Privat Engineering EAD, a direct subsidiary of Industrial Holding Bulgaria PLC. Bulport Logistics AD and Odria Ltd are indirect subsidiaries because they are subsidiaries of KLVK AD, a direct subsidiary of Industrial Holding Bulgaria PLC.

The total amount of related party transactions and outstanding balances for the current and previous reporting periods is as follows:

**Receivables from and payables to related parties**

**Loans to related parties**

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Subsidiaries	52,123	50,701
	<b>52,123</b>	<b>50,701</b>
incl. long-term portion	46,504	50,593
incl. short-term portion	5,619	108
incl. principal	51,910	50,593
incl. interest	213	108

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**Dividends receivable from related parties**

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Subsidiaries	-	373
	<b>-</b>	<b>373</b>

**Cash with banks – related parties**

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<i>Entities, over which the persons that have control within the meaning of IAS 24 (under item I) also exercise significant influence or are members of their key management personnel</i>	108	95
	<b>108</b>	<b>95</b>

**Payables to related parties**

<i>BGN'000</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<i>Deposits attracted (incl. interest due)</i>		
Subsidiaries	486	3,237
	<b>486</b>	<b>3,237</b>
long-term portion	-	-
short-term portion	486	3,237

Deposits from subsidiaries as at 31 December 2019 are non-secured at a fixed interest rate and mature before 31 December 2020. The terms and conditions of these deposits are the same as those as at 31 December 2018.

**Sales transactions**

<i>BGN'000</i>	<b>Type of transaction</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<i>Subsidiaries</i>	Dividend income	12,081	6,593
	Rental income	69	69
	Revenue from sales of services and FTAs	-	1
		<b>12,150</b>	<b>6,663</b>

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**Purchase transactions**

	<b>Type of transaction</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
<i>Persons exercising control within the meaning of IAS 24</i>	Interest expenses and other finance costs relating to debenture issues	-	430
<i>Entities under the joint control of the persons exercising control within the meaning of IAS 24</i>	Interest expenses and other finance costs relating to debenture issues	-	58
<i>Entities, over which the persons that have control within the meaning of IAS 24 (under item I) also exercise significant influence or are members of their key management personnel</i>	Other finance costs	1	2
<i>Entities, over which the persons that have control within the meaning of IAS 24 (under item I) also exercise significant influence or are members of their key management personnel</i>	Costs of hired services	17	11
		<u>18</u>	<u>501</u>

**Loans to related parties**

<i>BGN'000</i>		<b>Amounts granted</b>	<b>Non-cash – (increase) / decrease</b>	<b>Principal repaid</b>	<b>Interest income</b>	<b>Interest received</b>
Subsidiaries	31 December 2019	(1,595)	(3,679)	3,957	1,276	1,171
Subsidiaries	31 December 2018	(7,514)	(962)	7,143	1,359	1,086
	<b>31 December 2019</b>	<b>(1,595)</b>	<b>(3,679)</b>	<b>3,957</b>	<b>1,276</b>	<b>1,171</b>
	<b>31 December 2018</b>	<b>(7,514)</b>	<b>(962)</b>	<b>7,143</b>	<b>1,359</b>	<b>1,086</b>

**Deposits from related parties**

<i>BGN'000</i>		<b>Amounts received</b>	<b>Non-cash – increase / (decrease)</b>	<b>Principal paid</b>	<b>Interest expenses</b>	<b>Interest paid</b>
Subsidiaries	31 December 2019	1,443	(4,211)	-	(21)	(4)
Subsidiaries	31 December 2018	3,732	(652)	(150)	(18)	(11)
	<b>31 December 2019</b>	<b>1,443</b>	<b>(4,211)</b>	<b>-</b>	<b>(21)</b>	<b>(4)</b>
	<b>31 December 2018</b>	<b>3,732</b>	<b>(652)</b>	<b>(150)</b>	<b>(18)</b>	<b>(11)</b>

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**Commitments and contingencies**

**Legal claims**

No legal claims have been filed against the Company.

**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 31 December 2019:

- bank guarantees amounting to BGN 709 thousand (31 December 2018: BGN 294 thousand) were issued to the following Group companies: KRZ Port Bourgas 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 revolving credit line for working capital financing was opened amounting to BGN 7,000 thousand (31 December 2018: BGN 7,000 thousand). As of 31 December 2019, the amounts utilised under revolving credit line for working capital financing by the subsidiary ZMM Sliven AD was BGN 195 thousand, by Odessos PBM EAD - BGN 300 thousand, by KRZ Port Bourgas AD – BGN 115 thousand, and by ZMM Nova Zagora AD – BGN 700 thousand (on a net basis), respectively.

As of 31 December 2019, the unutilized limit under this contract for provision of a credit limit amounted to BGN 4,982 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**

To secure a bank loan received for the purpose of partial financing of a debenture loan, the Company concluded a financial collateral agreement through a pledge of receivables providing for a right of use over all its 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.

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**Non-systematic company specific risks**

**Risks associated with the holding structure and the structure of the portfolio of IHB**

In so far as the activity of the Company relates to management of other companies' assets, it is exposed to the Group subsidiaries' industry risks. The Holding's investments are focused on industries characterised by slow rotation of funds invested (machine-building), dependence on energy and other resources (machine-building, ship repair, maritime transport) and high cyclicality (ship repair, ship design, maritime transport, classification and certification, and port activity), thus reducing the return on the investment portfolio of the Holding as a whole.

**Risks arising out of dependence on 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 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 (such as the Russian and the Turkish 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.

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**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, Professional technical and 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**

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 ship building, 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 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 volumes of funds attracted are maintained at pre-determined levels and approved only after their economic effectiveness for each company has been proven.

The management's policy is 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.



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**Currency risk**

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. The Holding's management seeks to minimise the Group's exposure to currency risk minimising 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 global ship business operates. Given the expected Bulgaria's joining the ERM II exchange rate mechanism (the so-called euro area waiting room), there is a risk that the EUR exchange rate agreed under the applicable resolutions vis-à-vis the exchange rate of the Bulgarian lev to be different from the current fixed exchange rate. The latter, besides a risk on balance sheet items (receivables and liabilities) would also give rise to price risk on payments denominated in BGN. 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 cases of financing, whose price includes a floating interest rate component plus a margin. In managing this risk, management seeks to either negotiate fixed-rate loans or to conclude hedging transactions aiming at minimizing the effects of the changes in the floating interest rate component.

**Systematic risks**

The Holding and its subsidiaries are exposed to systematic risks relating to the market and macro-environment in which the companies operate; these risks cannot be managed and controlled by the management team.

**Trends for business in which Group companies operate**

**Maritime transport**

Maritime transport developed upwards in 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. The year ended with a smooth decline in the fourth quarter, but in general despite of the fluctuations, it has been at an average level over the last 5 years. A significant factor is the entry into force of the new fuel requirements from the beginning of 2020. The ships of the Group are prepared for these new requirements. In December 2019, a ballast system is to be mounted in m/v Karvuna. In February 2020, a ballast system is to be mounted in m/v Antea in Bulyard Shipping Industry. Since the beginning of 2020, the big concern of the market is outbreak of coronavirus epidemic in China, which actually blocks the Chinese economy, one of the biggest net importers of raw materials via sea transport, for an indefinite period.

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.

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#### **Shipbuilding and ship repair**

It is expected that the ship repair will increase its volume in 2020 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 construction building 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 retrophite, renovation, conversion and addition of new equipment to existing ships.

In 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 2019, the company will continue to develop in the area of the so-called „reverse engineering”, retrophite 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.
- 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);
- 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.

#### **Classification and certification**

**The Bulgarian Register of Shipping** (BRS) reported growth in 2019 in the number of small vessels registered under the Bulgarian flag. For the northern Black Sea region, the BRS performs most of the inspections, with the Maritime Administration (MA) mainly certifying vessels for the seasonal carriage of passengers. The management's efforts are focused on finding clients on the southern Black Sea coast, where the number of ports is larger and they are currently being served by Maritime Administration (MA) divisions.

According to a 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

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The procedure for recognizing the BSR by the Honduras Administration is in its final stage and a contract is due to be signed in early 2020. Contact has been made with the Panama and Sierra Leone administrations and an approval procedure is pending.

The efforts of the Company's management are directed towards finding new agents, attracting new shipowners, and developing and offering additional services.

#### **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 were commissioned. In 2020, the implementation of the approved port extension plan will continue.

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. Considerable efforts have been made in implementing the Master Plan for the extension 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.

#### **Machine building**

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. However, the global crisis in the automotive industry has had a negative impact.

In 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 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.

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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;

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

- 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 31 December 2019.

As at 31 December 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. Venside Enterprises Limited

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

As at 31 December 2019: 7,089,320 shares representing 06.60 % of votes held directly

2. BULLS AD

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

As at 31 December 2019: 37,608,121 shares representing 35.02% of votes held directly

Bulls AD owns 100% from the capital of Venside Enterprises Ltd and controls 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 31 December 2019: 8,957,874 shares representing 8.34% of votes held directly.

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 31 December 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 31 December 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

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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 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 31 December 2019, IHB held 6,648,222 redeemed treasury shares representing 6.19 % 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

This Public Notification has been prepared in accordance with the requirements of Art. 100o<sup>1</sup>, par. 4 of POSA.

**Daneta Zheleva**  
**Chief Executive Officer**  
**Industrial Holding Bulgaria PLC**

**Ivan Rashkov**  
**Chief Accountant**

**Vladislava Zgureva**  
**Investors Relations Director**