



INDUSTRIAL HOLDING BULGARIA

INDUSTRIAL HOLDING BULGARIA PLC

PUBLIC NOTIFICATION FOR FINANCIAL POSITION

30 September 2020

INDUSTRIAL HOLDING BULGARIA PLC
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For the period ended 30 September 2020

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>	30 September 2020	30 September 2019
Interest and dividend income	16,069	13,037
Other operating income	54	51
	16,123	13,088
Costs of personnel	(460)	(435)
Costs of hired services	(110)	(109)
Other operating expenses	(2,753)	(214)
Operating profit	12,800	12,330
Finance costs	(213)	(269)
Profit before tax	12,587	12,061
Income tax (expense) / benefit	-	-
Profit for the year	12,587	12,061
Other comprehensive income / (loss)	-	-
Total comprehensive income for the period, net of taxes	12,587	12,061

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Separate Statement of Financial Position

BGN'000

	30 September 2020	31 December 2019
ASSETS		
Non – current assets		
Non-current tangible and intangible assets	91	120
Right-to-use assets	843	963
Investments in subsidiaries	201,083	203,599
Loans to related parties	62,960	48,927
Differed tax asset	3	3
Total non-current assets	264,980	253,612
Current assets		
Loans to related parties	572	3,196
Trade and other receivables	2,125	12
Cash and cash equivalents	730	1,659
Total current assets	3,427	4,867
TOTAL ASSETS	268,407	258,479
EQUITY AND LIABILITIES		
Equity		
Share capital	107,400	107,400
Share premium	30,604	30,604
Treasury shares redeemed	(8,111)	(6,536)
Statutory and other reserves	9,661	9,661
Retained earnings	115,359	102,772
Total equity	254,913	243,901
Non-current liabilities		
Interest-bearing loans and borrowings	6,193	9,126
Lease liabilities	699	817
Retirement benefit liabilities	25	25
Total non-current liabilities	6,917	9,968
Current liabilities		
Interest-bearing loans and borrowings	3,918	3,920
Lease liabilities	157	155
Deposits from related parties	2,429	486
Trade and other payables	73	49
Total current liabilities	6,577	4,610
Total liabilities	13,494	14,578
TOTAL EQUITY AND LIABILITIES	268,407	258,479

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Separate Statement of Cash Flows

BGN'000

	30 September 2020	30 September 2019
Operating activity		
Dividends received	10,782	3,487
Cash loans repaid from related parties	2,641	2,367
Cash loans to related parties	(13,628)	(1,395)
Interest received on loans to related parties	436	919
Proceeds from customers	58	62
Remuneration related payments	(463)	(434)
Payments to suppliers and others	(164)	(178)
Net cash flows from operating activity	(338)	4,828
Investing activity		
Purchase of property, plant and equipment	(3)	(9)
Acquisition of investments	(13)	-
Net cash flows used in investing activity	(16)	(9)
Financing activity		
(Payments on) / Proceeds from redemption of treasury shares, net	(1,575)	(2,503)
Bank loans received	47	
Principal paid on bank loan	(2,980)	(2,934)
Interest paid on bank loan	(167)	(223)
Charges paid on bank loan	(10)	(13)
Liabilities paid under lease contracts	(116)	(111)
Interest paid under lease contracts	(12)	(11)
Deposits from related parties	4,247	1,258
Interest paid on deposits from related parties	(8)	(4)
Other proceeds and payments	(1)	(4)
Net cash flows used in financing activity	(575)	(4,545)
Increase in cash and cash equivalents	(929)	274
Cash and cash equivalents on 1 January	1,659	483
Cash and cash equivalents on 30 September	730	757

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Separate Statement of Changes in Equity

BGN'000

	Share capital premium	Share premium	Treasury shares redeemed	Statutory and additional reserves	Retained earnings	Total
Balance as at 1 January 2019	107,400	30,604	(3,308)	9,661	90,721	235,078
Total comprehensive income for the year						
Profit for the year	-	-	-	-	12,061	12,061
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	12,061	12,061
Transactions with shareholders recognised in equity						
Treasury shares redeemed	-	-	(2,503)	-	-	(2,503)
Total transactions with shareholders	-	-	(2,503)	-	-	(2,503)
Balance as at 30 September 2019	107,400	30,604	(5,811)	9,661	102,782	244,636
Balance as at 1 January 2020	107,400	30,604	(6,536)	9,661	102,772	243,901
Total comprehensive income for the year						
Profit for the year	-	-	-	-	12,587	12,587
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	12,587	12,587
Transactions with shareholders recognised in equity						
Treasury shares redeemed	-	-	(1,575)	-	-	(1,575)
Total transactions with shareholders	-	-	(1,575)	-	-	(1,575)
Balance as at 30 September 2020	107,400	30,604	(8,111)	9,661	115,359	254,913

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Interest and dividend income

<i>BGN'000</i>	30 September 2020	30 September 2019
Dividend income	15,211	12,081
Interest income	858	956
	16,069	13,037

Dividend income of BGN 15,211 thousand (30 September 2019: BGN 12,081 thousand) was reported as at 30 September 2020, distributed by:

<i>BGN'000</i>	30 September 2020	30 September 2019
ZMM Bulgaria Holding AD	11,385	8,455
KRZ Port Burgas AD	1,405	1,405
IHB Shipdesign AD	1,268	1,103
Odessos PBM EAD	1,003	1,003
Maritime Holding AD	150	115
	15,211	12,081

The main portion of the dividend distributed by ZMM Bulgaria Holding AD is based on profits earned by its subsidiary IHB Electric AD, a company that as of the date of this Public Notification is undergoing a liquidation procedure.

Interest income amounts to BGN 858 thousand (30 September 2019: BGN 956 thousand) and originates from interest-bearing receivables from subsidiaries on cash loans granted.

Other operating income

<i>BGN'000</i>	30 September 2020	30 September 2019
Rentals	54	51
	54	51

Employee benefits

<i>BGN'000</i>	30 September 2020	30 September 2019
Wages and salaries	(406)	(383)
Social insurance costs and other social payments	(54)	(52)
	(460)	(435)

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Other operating expenses

<i>BGN'000</i>	30 September 2020	30 September 2019
Expenses on impairment of investments	(2,567)	-
Depreciation / amortization expenses	(152)	(170)
Expenses on materials	(22)	(21)
Other operating expenses	(12)	(23)
	(2,753)	(214)

As disclosed in Investments in subsidiaries section, the Company has conducted impairment testing of the same in the Maritime Transport sector, as a result of which as of 30 September 2020 an impairment loss on the investment in Privat Engineering EAD of BGN 2,567 thousand was recognized (30 September 2019: No impairment loss was recognized by the Company).

Finance costs

<i>BGN'000</i>	30 September 2020	30 September 2019
Interest expenses on bank loans	(165)	(221)
Interest expenses on lease contracts	(12)	(11)
Interest expenses on deposits from related parties, etc.	(24)	(20)
Charges bank loans	(10)	(13)
Other finance costs	(2)	(4)
	(213)	(269)

Income tax

The Company owes no income taxes for the periods ended 30 September 2020 and 30 September 2019.

The reconciliation of income tax expenses and the accounting profit multiplied by the applicable rate for the periods ended 30 September 2020 and 30 September 2019 is as follows:

<i>BGN'000</i>	30 September 2020	30 September 2019
Accounting profit before taxes	12,587	12,061
Income tax expense at the applicable tax rate of 10% for 2020 (2019: 10%)	(1,259)	(1,206)
Income exempted from tax – dividends	1,521	1,208
Tax loss, for which tax asset is not recognized	(262)	(2)
Income tax benefit / (expense) at an effective tax rate of 0% (2019: 0%)	-	-

As at 30 September 2020, the Company reported a deferred tax asset amounting to BGN 3 thousand (at 30 September 2019: BGN 2 thousand) on retirement benefit liabilities accrued.

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Investments in subsidiaries

Investments, held by the Company as of 30 September 2020 and 31 December 2019, were as follows:

<i>BGN'000</i>	Country of incorporation	30 September 2020		31 December 2019	
		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	54,653	100.000	57,220	100.000
KRZ Port Burgas 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 Shippbuilding Industry AD	Bulgaria	63,371	95.890	63,371	95.890
Odessos PBM EAD	Bulgaria	23,653	100.000	23,653	100.000
IHB 3 Design AD	Bulgaria	51	51.000	-	-
		201,083		203,599	

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

On 10 February 2020, a newly incorporated company, IHB 3Design AD, with capital of BGN 100 thousand, split into 100,000 shares with nominal value of BGN 1 each, was registered with the Commercial Register. Industrial Holding Bulgaria PLC subscribed 51% of the capital.

On 15 January 2020, the General Meeting of Shareholders of IHB Electric AD (in liquidation) took a decision to discontinue the activity of the company and to announce it in liquidation. The liquidation term is 12 months as of 24 March 2020, which is the date of registration with the Commercial Register at the Registry Agency of the notice to the company's creditors in accordance with Art. 267 of the Commercial Act.

Impairment testing

As of 30 September 2019, management of the Company conducted an analysis and found that there were indications of impairment of investments in subsidiaries operating in the maritime sector (Privat Engineering EAD and KLVK AD).

Management conducted impairment testing of the investments as at 30 September 2020 and took into account the following factors:

- The decline in the freight market as a result of the decline in global trade as a result of the COVID-19 pandemic and the restrictive measures taken by countries around the world to limit its spread, which further exacerbated the trend of low freight levels observed over the last 10 years;
- The higher environmental requirements for ships in operation, which has led to investments on the part of shipowners, which do not have a positive impact on profitability and are associated with serious costs and additional days out of operation;
- The increasing market volatility and instability (political risks, etc.).

Moreover, as a result of the effect of the above factors, Privat Engineering EAD is in the process of exploring the possibility of selling one of the ships owned by its subsidiary (m/v Emona).

The recoverable amount of these investments is determined by calculating the value in use based on forecast cash flows for the remaining useful life of ships (except for m/v Emona). The amount after the determined forecast period is based on a calculation of its terminal value.

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The value of m-/v Emona was determined based on the ship's fair value.

The recoverable amount of KLVK AD exceeds the values of net investments in this company. Therefore, no impairment loss was recognized.

The recoverable amounts of Privat Engineering is lower than the values of net investments in this company. Therefore, Industrial Holding Bulgaria PLC has recognised impairment of BGN 2,567 thousand with respect to its investments in Privat Engineering EAD.

Interest-bearing loans and borrowings

<i>BGN'000</i>	Currency	Interest rate %	30 September 2020	31 December 2019
Secured bank loan of EUR 10,000 thousand	EUR	1.9%	10,111	13,046
			10,111	13,046
Long-term portion			6,193	9,126
Short-term portion			3,918	3,920

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 fully. The loan expires in 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.

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Lease liabilities

<i>BGN'000</i>	30 September	31 December
	2020	2019
Lease liabilities	<u>856</u>	<u>972</u>
Long-term portion	699	817
Short-term portion	157	155

The lease liability represents the discounted amount of the estimated rental payments under a contract for the rent of an office (a building). Pursuant to the latter contract, the Company also recognized a right-of-use asset.

Equity

Share capital - registered

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

<i>BGN'000</i>	30 September	31 December
	2020	2019
107,400,643 ordinary shares with nominal amount of BGN 1 each	<u>107,400</u>	<u>107,400</u>
	107,400	107,400

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.

Shareholders

The shareholders of Industrial Holding Bulgaria PLC holding more than 5% of the company's capital as of 30 September 2020 are as follows:

<i>Shareholder</i>	Number of shares at 30 September 2020	30 September 2020
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*	8,402,468	7.82%
Others	<u>45,342,860</u>	<u>42.22%</u>
	107,400,643	100.00%

** Treasury shares redeemed*

The total number of the treasury shares held as at 31 December 2019 is 6,648,222 for the total amount of BGN 6,536 thousand. Over the period 01 January 2020 – 30 September 2020, 1,754,246 treasury shares amounting to BGN 1,575 thousand were bought up. The number of the treasury shares redeemed as at 30 September 2020 is 8,402,468 for the total amount of BGN 8,111 thousand. 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 30 September 2020 and 31 December 2019 are disclosed in *Investments in subsidiaries*.

- *Subsidiaries in which the Company holds indirect control*

IHB Metal Castings AD is an indirect subsidiary of Industrial Holding Bulgaria PLC because it is a subsidiary of ZMM Bulgaria Holding AD, a direct subsidiary of Industrial Holding Bulgaria PLC. Karvuna Ltd. and Tirista Ltd. 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>	Type of transaction	30 September 2020	31 December 2019
<i>Subsidiaries</i>	Principal	62,960	51,973
	Interest	572	150
		63,532	52,123
Long-term portion		62,960	48,927
Short-term portion		572	3,196

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Trade and other receivables

<i>BGN'000</i>	Type of transaction	30 September 2020	31 December 2019
<i>Subsidiaries</i>	Dividends	2,109	-
<i>Subsidiaries</i>	Rentals	7	-
<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>	Prepayments	-	11
		2,116	11

Cash with banks – related parties

<i>BGN'000</i>		30 September 2020	31 December 2019
<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>		4	108
		4	108

Deposits from related parties

<i>BGN'000</i>	Note	30 September 2020	31 December 2019
<i>Subsidiaries</i>	Principal	2,422	485
	Interest	7	1
		2,429	486
Long-term portion		-	-
Short-term portion		2,429	486

Deposits received from subsidiaries as at 30 September 2020 are not secured and bear a fixed interest rate; they mature on 28 February 2020. The terms and conditions of deposits as at 31 December 2019 remain the same.

Trade and other payables

<i>BGN'000</i>	Type of transaction	30 September 2020	31 December 2019
<i>Subsidiaries</i>	Capital subscribed but not paid in	38	-
		38	-

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Sales transactions

<i>BGN'000</i>	Type of transaction	30 September 2020	30 September 2019
<i>Subsidiaries</i>	Dividend income	15,211	12,081
	Rental income	54	51
		<u>15,265</u>	<u>12,132</u>

Purchase transactions

	Type of transaction	30 September 2020	30 September 2019
<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	10	13
		<u>10</u>	<u>13</u>

Loans to related parties

<i>BGN'000</i>		Amounts granted	Non-cash – (increase) / decrease	Principal repaid	Interest income	Interest received
Subsidiaries	30 September 2020	(13,628)	-	2,641	858	436
Subsidiaries	30 September 2019	(1,395)	(2,676)	2,367	956	919
	30 September 2020	(13,628)	-	2,641	858	436
	30 September 2019	(1,395)	(2,676)	2,367	956	919

Deposits from related parties

<i>BGN'000</i>		Amounts received	Non-cash – increase / (decrease)	Principal paid	Interest expenses	Interest paid
Subsidiaries	30 September 2020	4,247	(2,320)	-	(24)	(8)
Subsidiaries	30 September 2019	1,258	(4,211)	-	(20)	(4)
	30 September 2020	4,247	(2,320)	-	(24)	(8)
	30 September 2019	1,258	(4,211)	-	(20)	(4)

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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 30 September 2020:

- bank guarantees amounting to BGN 28 thousand (31 December 2019: BGN 708 thousand) were issued to the following Group companies: Bulyard Shippbuilding Industry AD and IHB Metal Castings AD,
- a letter of guarantee was issued to cover a liability of KRZ Port Burgas AD amounting to BGN 3,000 thousand (31 December 2019: BGN 3,000 thousand);
- a letter of credit for BGN 264 thousand was issued (31 December 2019: Nil);
- a revolving credit line for working capital financing was opened amounting to BGN 7,000 thousand (31 December 2019: BGN 7,000 thousand). As of 30 September 2020, the amounts utilised under this revolving credit line for working capital financing by the subsidiary ZMM Sliven AD was BGN 493 thousand, by Odessos PBM EAD - BGN 300 thousand, by KRZ Port Burgas AD – BGN 282 thousand, and by ZMM Nova Zagora AD – BGN 660 thousand (on a net basis), respectively.

As of 30 September 2020, the unutilized limit under this contract for provision of a credit limit amounted to BGN 4,973 thousand.

The contract with the bank is secured by a registered pledge on the commercial enterprise of KRZ Port Burgas 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 from pandemics and epidemics - globalization worldwide and the much freer movement of goods and people lead to a significantly faster spread of pandemics and epidemics, and make it difficult to locate them in individual regions / countries, which in the case of more serious diseases, such as COVID-19, blocks world trade and has an adverse impact on all economic agents.

Risks arising out of dependence on the development of the global economy and trade

The spread of COVID-19 worldwide is shrinking the world economy and has a negative impact on businesses of all economic agents.

In general, 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 they have a direct and imminent impact on shipping industry. Stress on the market and pressure on the freight have a number of divergent factors:

- cyclicity 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.

The level of economic activity worldwide has impacted, albeit more slowly, on machine building, shipbuilding and ship repair, while port operations depend to a greater extent on the developments in the domestic market.

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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 associated with fraud and abuse

As a result of the processes related to the spread of the COVID-19 pandemic and the contraction of the global economy as a result thereof, the risk of fraud and abuse increases, including that related to cyber-attacks, unscrupulous trade practices, etc. As regards the Group, this risk is most prevalent in maritime transport.

Risks relating to environment legislation

The domestic and international legislation on ecology implies compliance with a number of measures on prevention, control and reduction of various types of environmental pollution. The trend in recent years is to increase regulations in this area. 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 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.). The most affected segments are that of machine building, maritime transport, and ship repair segments. To date, the impact of this risk has diminished as a result of staff layoffs by companies that have ceased or severely curtailed their operations as a result of the pandemic. 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.

Currently, the level of credit risk worldwide and for the Group, in particular, has increased significantly due to the contraction of economic activity because of COVID-19. 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.

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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. Currently, the level of credit risk worldwide and for the Group, in particular, has increased significantly due to the contraction of economic activity because of COVID-19. 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.

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. Aiming at reducing the Group's exposure to currency risk, the Holding's management is trying to minimise 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. Given the Bulgaria's joining the ERM II exchange rate mechanism (the so-called euro area waiting room), there is a low risk that the EUR exchange rate agreed vis-à-vis the exchange rate of the Bulgarian lev in the event of entry into the Euro area to be different from the current fixed exchange rate. The latter, besides a risk on balance sheet items (receivables and liabilities) could 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.

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Trends for business in which Group companies operate

Maritime transport

Despite the upward trend in the freight market in 2019 and the initial expectations preserving it in 2020, the spread of COVID-19 and restrictive measures taken by many countries had a strong negative impact on the sector. In early 2020, China's economy, one of the largest net importers of raw materials by sea, was first blocked, reducing global cargo and freights. The closure of the borders of many other countries in mid-March 2020, including the United States and Europe, has intensified the negative impact of the significant drop in freight traffic, exacerbated by a number of difficulties in organizing loading and unloading in ports as a result of measures introduced to limit any possibility of infection.

The suspended work of traditional shipwreck locations (such as India, Pakistan) has led to virtually zero vessel scrapping in the last three months, which is usually a strong factor in reducing global ship tonnage in times of crisis. The reduction of world cargo by sea, the decline in the number of shipwrecks, as well as the uncertainty and difficulties in carrying out operational business processes, have led to greatly reduced rates and increased competition among economic operators. In the third quarter and at present, there is a tendency to stabilize the market, but it is still difficult and volatile. The business environment is risky also given the observed trend of a second wave of morbidity in some regions of the world and the uncertainty about the measures that governments will take. In the longer term, a possible change in the policy of the main countries, factors for the development of world trade and economy, may have a negative effect on maritime transport, if after overcoming the spread of COVID-19, their economies close and focus primarily on satisfying domestic demand through their own production. This will reduce freight flows as a sustained trend (mostly from and to China).

The sector is also affected by the entry into force of the conventions on mandatory use by sea vessels of ballast water treatment systems and the low sulphur content of fuels from the beginning of 2020. The Group's vessels are gradually preparing for the new requirements. In March 2020, a ballast system was installed on a second ship from the IHB's fleet m / v Antea. These mandatory investments now worsen the entities' financial ratios as they do not have a positive impact on their profitability and require serious expenses and more days out of operation; however, they enable ships to continue operating and generating revenue in the future. The other ships of the Group are expected to gradually meet the new environmental requirements in their next scheduled class repairs to be carried out in 2021 and the first half of 2022.

Despite the difficulties in the market, **all vessels** of the Group are operational.

Ship building and ship repair

At the beginning of 2020, it was expected an increased volume of ship repairs compared to the previous year, especially in connection with the implementation of the new requirements to vessels. However, the global spread of COVID-19 and countries' restrictions have blocked the opportunities for ship repair services in recent months. The planned class repairs of the vessels were postponed, and the registration certificates, allowing them to sail, were automatically extended by 3 to 6 months due to the impossibility of movement of the register inspectors and fulfilment of their supervision commitments in the course of repairs. The trend in the second quarter towards gradual lifting of restrictions has put shipowners in a need to quickly seek the opportunity to perform deferred class repairs due to the inability of ships to continue their operations. The latter has led to a recovery in demand and the production program of **Bulyard Shipbuilding Industry** was booked in the short term. In the third quarter there was a tendency to postpone the repairs after the extension of the term of the certificates. As a result, there was a lower number of inquiries for repair and it is expected that by the end of the year, shipowners will become active again in search of slots for docking ships. In the medium term, the enhanced environmental measures for ships in operation and the legal requirements imposed on them to install ballast water systems, will continue to impact positively on the industry due to the increased volume of ship repairs that will have to be performed.

However, the negative impact of the pandemic on the freight market and the significant uncertainty of the global economy future development have put strong pressure to reduce the construction of new vessels. The trend has severely limited the company's ability to participate in such projects as a subcontractor for parts of the ship (metal structures, etc.), and no recovery of these services is expected by the end of 2020.

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Ship design

During the last few years, there have been an increased demand for design and ship repair services for retrofitting, refurbishing, converting and adding new equipment to existing ships. 2020 also started well, but countries' restrictions on limiting the spread of COVID-19 have had a negative impact on design services.

In general, the economic environment is highly uncertain and its development is difficult to predict in the coming months.

The market for retrofit services and 3D laser scanning has shrunk due to the inability to physically move people and photograph ships that is a must in order to continue the process of designing changes. These services recovered partially as soon as the measures are relaxed since such services are sought in view of the new ecological requirements imposed on the industry to mount ballast systems. However, many shipowners postpone these projects.

There is also a decline in the cruise ship market. The behaviour of shipowners in this situation is different. Those, who have the opportunity to finance or can ensure access to financing, take advantage of the market situation and continue their investment projects in order to realise potential opportunities when demand is recovered. Others are postponing their projects to build new ships until uncertainty about future development is reduced. There are also cases of cancelling construction contracts at an early stage.

The fall in oil prices has narrowed the price gap between heavy and light diesel fuel, and reduced the cost-effectiveness for owners to supply their ships' engines with scrubber systems that will allow them to continue to use heavy fuel. The recovery of this type of service directly depends on the oil prices. The low freight market has intensified negative effects. The effect of these factors makes economic agents rather cautious in their decisions.

The fact that **IHB Shipdesign** is well positioned, the variety of services it offers (such as types of design services and types of ships) and the wide customer diversification enable the company to keep most of its staff and to work profitably, despite the volatility in the market.

Classification and certification

The decline in the freight market and restrictions imposed to overcome the spread of COVID-19 had a negative impact on the activities of the **Bulgarian Ship Register (BRS)** as well. During the first six months of 2020, there was a tendency for decreasing the number of inquiries and requests for inspections of ships and, if possible, their postponement by shipowners, which was also impacted negatively by the inability to physically move people. The company is looking for ways to provide classification and certification services remotely or through agents and subcontractors, where possible. In the third quarter, there was a slight increase in the submitted requests for inspections and activation of the market, which is due to the partial abolition of travel restrictions in Bulgaria's neighbouring countries.

This made it possible to visit the ships and carry out postponed inspections. The Bulgarian Ship Register was selected as a contractor by the Municipality of Burgas to supervise the construction of a motor catamaran for passenger transport. A contract is to be signed. It is expected that the project will be completed in the middle of next year. In the latest publication of the Paris Memorandum on the Presentation of the Recognized Organizations, BSR retains its current position, which is a prerequisite for attracting new customers and applying for approval to new Flag Administrations.

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

Port operations

The development of the Bulgarian ports depends to a much greater extent on the economic situation in Bulgaria and in the countries of the Mediterranean and Black Sea regions than on the change in economic activities in other parts of the world.

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The ports of **KRZ Port Burgas** and **Odessos PBM** are of regional importance and their activity also depends on the seasonality of some types of cargo.

The spread of the COVID-19 pandemic and measures taken to limit it have a different impact on shippers depending on their cargo.

For cereals, of which Bulgaria is a traditional exporter, the demand for port services and freight flows have been affected differently depending on the final destination of unloading. For some of the goods destined for countries with more extreme restrictive measures, there were cases of rejected orders by customers; however, demand has remained relatively stable during the first months of 2020. The poor harvest in the country this season also has impacted negatively on these cargo flows during the summer months. There is a tendency to direct investment efforts of the ports in the region of Varna and Burgas towards building new storage facilities and warehouses aiming at improving and speeding up handling processes, which strengthens the competitive environment in which Odessos PBM and KRZ Port Burgas operate. The increase in the import cargo flows of crops has had a positive impact as a result of investments in the construction of additional processing capacities already completed by producers in the North-Eastern region of the country. The Group's investment intentions to expand the two ports depend mostly on grain cargo due to its large volume and stable demand for port services in times of crisis. Regarding these projects, the companies are working on the technical design and securing the necessary building permits.

Metal and scrap cargo also shrank due to the reduced activity of economic agents. Their recovery is directly dependent on the restart of the economy and investment activity in infrastructure and construction projects, which at this stage is difficult to predict.

In general, the Group's two ports' diversification of cargo and their approbated market position enable the ports to continue their activities although at reduced profitability due to the latest market developments and changes in the business environment.

Bulport Logistics offers services in the field of small and mid-sized vessels and yachts mooring, ships docking for repairs, as well as the rental of office premises and areas for storage and production activities. Restrictions at the government level imposed in relation to the pandemic in recent months affected negatively mainly the demand for office space and repairs of small vessels, due to shrinking economic activity of potential customers as a result of uncertainty in the business environment. Currently, there is a tendency to resume demand and the company's expectations are to gradually lease out vacant office spaces in the medium term.

Machine building

In the first three months of 2020, the demand for metal-cutting machines offered by the Group increased compared to the same period in 2019. After the end of March, the restrictions taken by many countries around the world to limit the spread of COVID-19 and high uncertainty in the business environment, negatively affected the investment activity of the clients of both ZMM Bulgaria Holding and its subsidiaries, as a result of which there was a decrease in the volume of orders and revenue. The negative effect is exacerbated by partial delays and difficulties in the shipment of finished products and delivery of raw materials. It should be noted that the marketing communication of ZMM Bulgaria Holding not only did not decrease, but was seriously activated during this period. The aim was to make it clear to customers around the world that the holding's plants continue to operate despite the difficulties in complying with all the necessary measures aimed at preserving human health.

In the second half of August, the trend began to change significantly. September was a very strong month in terms of orders, the first half of October and at present - too.

In the medium term, due to diverging opinions on the development of the epidemiological situation, it is very difficult to make any forecasts. Uncertainty about the development of the automotive industry worldwide will continue to have a negative effect.

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Along with that the expectations are that the active marketing policy of ZMM Bulgaria Holding in the last few years, the change in the pricing processes and product development, and the increased online presence will begin to bear fruits - there is a consistent tendency to increase inquiries from end customers with very wide geographical diversification, which in the long run is expected to lead to sustainable market positions for companies operating in the machine building sector.

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 March 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. 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

2. 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

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 30 September 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 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 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.

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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.

As at 30 September 2020, IHB held 8,957,874 redeemed treasury shares representing 8.34 % 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

There is no such circumstance.

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. 100o¹, par. 4 of POSA.

Daneta Zheleva
Chief Executive Officer
Industrial Holding Bulgaria PLC

Ivan Rashkov
Chief Accountant

Vladislava Zgureva
Investors Relations Director