



INDUSTRIAL HOLDING BULGARIA

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

31 December 2020

INDUSTRIAL HOLDING BULGARIA PLC
Public notification for financial position on a consolidated basis
For the period ended 30 September 2020

CORPORATE INFORMATION

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

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

The General Meeting of Shareholders held on 27 February 1998 passed a decision to reorganize the activities of Privatisation Fund Bulgaria PLC into a holding company and to rename it from Privatisation Fund Bulgaria PLC to Industrial Holding Bulgaria PLC. The Company’s capital amounts to BGN 107,400,643 at 31 December 2020. The company has a two-tier system of governance, comprising Supervisory Board and Management Board.

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

As at 31 December 2020, Industrial Holding Bulgaria PLC has 10 direct subsidiaries (31 December 2019: 9), no associates (31 December 2019: None), and 12 indirect subsidiaries (31 December 2019: 12 indirect subsidiaries), collectively referred to as “the Group”.

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

The duration of all Group companies shall be perpetual and the companies are not limited by other resolute condition, except for IHB Electric AD (in liquidation), with respect of which a final liquidation balance sheet was prepared as at 30 November 2020 after the distribution of its assets. On 22 January 2021, the General Meeting of Shareholders of IHB Electric AD (in liquidation) approved the results from the assets’ distribution and took a decision to obliterate the company from the register. The obliteration of the company was registered with the Commercial Register on 02 February 2021.

Industrial Holding Bulgaria PLC is entered into the Register kept by the Registry Agency under Unified Identification Code (UIC) 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.

INDUSTRIAL HOLDING BULGARIA PLC
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NOTES

Consolidated Statement of Comprehensive Income

For the period ended 31 December 2020

BGN'000

| | 31 December 2020 | 31 December 2019 |
|---|-----------------------------|-----------------------------|
| Revenue | 88,967 | 114,560 |
| Other operating income | 5,370 | 1,850 |
| | 94,337 | 116,410 |
| Change in stock of work in progress and finished products | (415) | 909 |
| Costs of acquisition and development of assets' self-construction | 1,006 | 1,628 |
| Costs of materials | (26,850) | (33,322) |
| Costs of hired services | (17,541) | (21,355) |
| Depreciation / amortization expenses | (13,788) | (14,414) |
| Costs of personnel | (28,116) | (29,485) |
| Other operating expenses | (14,892) | (8,447) |
| Operating profit | (6,259) | 11,924 |
| Finance income | - | 300 |
| Finance costs | (3,746) | (2,052) |
| Profit before tax | (10,005) | 10,172 |
| Income tax expense | (1,226) | (1,721) |
| Profit for the year | (11,231) | 8,451 |
| Attributable to: | | |
| Equity holders of the parent | (11,678) | 7,741 |
| Non-controlling interests | 447 | 710 |

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Consolidated statement of financial position

As at 31 December 2020

BGN'000

| | 31 December 2020 | 31 December 2019 |
|------------------------------------|-----------------------------|-----------------------------|
| Assets | | |
| Non – current assets | | |
| Property, plant and equipment | 309,532 | 346,644 |
| Intangible assets | 2,456 | 2,780 |
| Investment property | 13,226 | 12,108 |
| Right-to-use assets | 1,536 | 1,966 |
| Goodwill | 9,130 | 9,130 |
| Differed tax asset | 42 | 108 |
| Others | 24 | - |
| Total non-current assets | 335,946 | 372,736 |
| Current assets | | |
| Inventories | 16,962 | 18,672 |
| Trade and other receivables | 7,725 | 7,718 |
| Contract assets | 1,117 | 845 |
| Income tax receivable | 14 | 3 |
| Cash and cash equivalents | 6,942 | 7,542 |
| Total current assets | 32,760 | 34,780 |
| Assets classified as held for sale | 1,157 | 1,368 |
| TOTAL ASSETS | 369,863 | 408,884 |

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Consolidated Statement of Financial Position

As at 31 December 2020

(continued)

| <i>BGN'000</i> | 31 December 2020 | 31 December 2019 |
|---------------------------------------|------------------------------|------------------------------|
| Equity | | |
| Share capital | 107,400 | 107,400 |
| Share premium | 30,604 | 30,604 |
| Treasury shares redeemed | (8,668) | (6,536) |
| Other reserves | 84,693 | 84,630 |
| Foreign currency translation reserve | 11,592 | 20,078 |
| Retained earnings | 76,294 | 88,170 |
| | <u>301,915</u> | <u>324,346</u> |
| Non-controlling interest | 2,262 | 2,496 |
| Total equity | <u>304,177</u> | <u>326,842</u> |
| Liabilities | | |
| Non-current liabilities | | |
| Interest-bearing loans and borrowings | 17,545 | 28,519 |
| Lease liabilities | 1,260 | 1,642 |
| Loans from related parties | 2,437 | 7,306 |
| Derivative financial liability | 123 | 194 |
| Trade and other payables | 145 | 181 |
| Financing | 1,371 | 1,473 |
| Retirement benefit liabilities | 804 | 784 |
| Deferred tax liabilities | 10,527 | 10,336 |
| Total non-current liabilities | <u>34,212</u> | <u>50,435</u> |
| Current liabilities | | |
| Interest-bearing loans and borrowings | 11,521 | 12,163 |
| Lease liabilities | 306 | 341 |
| Loans from related parties | 2,567 | 3,311 |
| Derivative financial liability | 282 | 218 |
| Trade and other payables | 13,051 | 12,529 |
| Contract liabilities | 3,334 | 2,519 |
| Provisions | 136 | 244 |
| Financing | 109 | 116 |
| Income tax liability | 168 | 166 |
| Total current liabilities | <u>31,474</u> | <u>31,607</u> |
| Total liabilities | <u>65,686</u> | <u>82,042</u> |
| TOTAL EQUITY AND LIABILITIES | <u><u>369,863</u></u> | <u><u>408,884</u></u> |

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Consolidated statement of cash flows

For the period ended 31 December 2020

BGN'000

| | 31 December 2020 | 31 December 2019 |
|---|-----------------------------|-----------------------------|
| <i>Operating activity</i> | | |
| Proceeds from customers | 91,177 | 116,078 |
| Payments to suppliers | (47,877) | (57,362) |
| Staff remuneration related payments | (27,835) | (28,923) |
| Corporate income taxes paid | (859) | (1,368) |
| Other taxes refunded /(paid) | 616 | 2,702 |
| Foreign currency differences | (746) | (47) |
| Other payments | 999 | (653) |
| Net cash flows from operating activity | 15,475 | 30,427 |
| <i>Investing activity</i> | | |
| Proceeds on sale of property, plant and equipment | 7,851 | 238 |
| Payments on the acquisition of fixed assets and assets' self-construction | (4,645) | (10,087) |
| Other (payments) / proceeds | - | 86 |
| Net cash flows used in investing activity | 3,206 | (9,763) |
| <i>Financing activity</i> | | |
| Proceeds from sale / (Payments on) redemption of treasury shares | (2,132) | (3,228) |
| Interest-bearing loans and borrowings received | 6,511 | 2,295 |
| Interest-bearing loans and borrowings paid | (21,260) | (13,346) |
| Lease liabilities paid | (333) | (330) |
| Dividends paid | (611) | (570) |
| Interest paid on loans and borrowings | (987) | (1,683) |
| Interest paid on leases | (32) | (31) |
| Charges and commission fees paid on loans and borrowings | (28) | (37) |
| Amounts paid on an interest rate swap contract | (352) | (135) |
| Other payments | (57) | (164) |
| Net cash flows used in financing activity | (19,281) | (17,229) |
| Net increase / (decrease) in cash and cash equivalents | (600) | 3,435 |
| Cash and cash equivalents on 1 January | 7,542 | 4,107 |
| Cash and cash equivalents on 31 December | 6,942 | 7,542 |

INDUSTRIAL HOLDING BULGARIA PLC
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For the period ended 31 December 2020

Consolidated statement of changes in equity

For the period ended 31 December 2020

| <i>BGN'000</i> | Attributable to the equity owners of the parent company | | | | | | | Total | Non-controlling interest | Total equity | |
|---|---|---------------|--------------------------|-----------------------------------|---------------------|--------------------------------------|--------------------------|-----------------|--------------------------|--------------|-------------------|
| | Share capital | Share premium | Treasury shares redeemed | Statutory and additional reserves | Revaluation reserve | Foreign currency translation reserve | Cash flows hedge reserve | | | | Retained earnings |
| At 1 January 2020 | 107,400 | 30,604 | (6,536) | 4,843 | 80,140 | 20,078 | (353) | 88,170 | 324,346 | 2,496 | 326,842 |
| Total comprehensive income for the year | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | (11,678) | (11,678) | 447 | (11,231) |
| Other comprehensive income for the year | - | - | - | - | - | (8,486) | 54 | (189) | (8,621) | (5) | (8,626) |
| Total comprehensive income for the year | - | - | - | - | - | (8,486) | 54 | (11,867) | (20,299) | 442 | (19,857) |
| Transactions with shareholders recognised in equity | | | | | | | | | | | |
| Profit distribution to reserve | - | - | - | 131 | - | - | - | (131) | - | - | - |
| Dividends distributed | - | - | - | - | - | - | - | - | - | (655) | (655) |
| Treasury shares redeemed | - | - | (2,132) | - | - | - | - | - | (2,132) | - | (2,132) |
| Share acquisition | - | - | - | - | - | - | - | - | - | 49 | 49 |
| Liquidation quota distribution | - | - | - | - | - | - | - | - | - | (70) | (70) |
| Total transactions with shareholders | - | - | (2,132) | 131 | - | - | - | (131) | (2,132) | (676) | (2,808) |
| Transfer of revaluation reserve of assets sold to retained earnings | - | - | - | - | (122) | - | - | 122 | - | - | - |
| At 31 December 2020 | 107,400 | 30,604 | (8,668) | 4,974 | 80,018 | 11,592 | (299) | 76,294 | 301,915 | 2,262 | 304,177 |

INDUSTRIAL HOLDING BULGARIA PLC

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Consolidated statement of changes in equity

For the period ended 31 December 2019

| <i>BGN'000</i> | Attributable to the equity owners of the parent company | | | | | | | | Non-controlling interest | Total equity | |
|---|---|---------------|--------------------------|-----------------------------------|---------------------|--------------------------------------|--------------------------|-------------------|--------------------------|--------------|----------------|
| | Share capital | Share premium | Treasury shares redeemed | Statutory and additional reserves | Revaluation reserve | Foreign currency translation reserve | Cash flows hedge reserve | Retained earnings | | | Total |
| At 1 January 2019 | 107,400 | 30,604 | (3,308) | 4,825 | 80,239 | 17,865 | (184) | 80,493 | 317,934 | 2,499 | 320,433 |
| Total comprehensive income for the year | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | 7,741 | 7,741 | 710 | 8,451 |
| Other comprehensive income for the year | - | - | - | - | - | 2,213 | (169) | (145) | 1,899 | (7) | 1,892 |
| Total comprehensive income for the year | - | - | - | - | - | 2,213 | (169) | 7,596 | 9,640 | 703 | 10,343 |
| Transactions with shareholders recognised in equity | | | | | | | | | | | |
| Profit distribution to reserve | - | - | - | 18 | - | - | - | (18) | - | - | - |
| Dividends distributed | - | - | - | - | - | - | - | - | - | (706) | (706) |
| Treasury shares redeemed | - | - | (3,228) | - | - | - | - | - | (3,228) | - | (3,228) |
| Total transactions with shareholders | - | - | (3,228) | 18 | - | - | - | (18) | (3,228) | (706) | (3,934) |
| Transfer of revaluation reserve of assets sold to retained earnings | - | - | - | - | (99) | - | - | 99 | - | - | - |
| At 31 December 2019 | 107,400 | 30,604 | (6,536) | 4,843 | 80,140 | 20,078 | (353) | 88,170 | 324,346 | 2,496 | 326,842 |

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Revenue

| <i>BGN'000</i> | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|-----------------------------|
| Revenue from manufacture of metal-cutting machines, components and details | 25,416 | 32,891 |
| Revenue from cargo transportation under voyage charter contracts | 19,991 | 31,207 |
| Revenue from time-charter contracts | 11,355 | 12,296 |
| Revenue from repair and reconstruction of ships | 12,214 | 14,430 |
| Revenue from manufacture of metal structures | 156 | 1,017 |
| Revenue from designer's services | 3,338 | 5,164 |
| Revenue from cargo processing | 8,759 | 10,231 |
| Revenue from cargo storage | 1,390 | 1,226 |
| Quay rentals | 1,257 | 1,872 |
| Property rentals | 2,138 | 2,294 |
| Revenue from other services | 2,953 | 1,932 |
| | 88,967 | 114,560 |

The contraction of the global economy and the slowdown in economic growth as a result of the COVID-19 pandemic have had a negative impact on all business agents. The reduced economic activity worldwide affected the Group as well, as the consolidated revenue for 2020 scored a decline compared to 2019. The shipping industry was the segment of the portfolio of Industrial Holding Bulgaria AD that was first and most severely impacted on. Although at a later stage, restrictive measures affected business activity in other segments as well.

Other operating income

| <i>BGN'000</i> | 31 December 2020 | 31 December 2019 |
|---|-----------------------------|-----------------------------|
| Income from financing | 3,011 | 310 |
| Gain on sale of fixed assets and assets classified as held for sale | 812 | 63 |
| Gain on sale of materials and scrap | 639 | 1,173 |
| Income from insurance indemnities | 379 | 2 |
| Provisions reversed | 119 | 2 |
| Liabilities derecognized | 109 | - |
| Other income | 301 | 300 |
| | 5,370 | 1,850 |

Income from financing of BGN 3,011 thousand reported as at 31 December 2020 include income of BGN 2,902 thousand (01 January 2019 – 31 December 2019: Nil) received under the Employment Protection Program of the Employment Agency aimed to support businesses and reduce negative impact of COVID-19.

In December 2020, the Group sold m/v Emona for the price of BGN 7,290 thousand (USD 4,250 thousand) and reported a profit of BGN 105 thousand. As at 30 September 2020, as a result of the impairment testing carried out the value of m/v Emona was impaired by BGN 3,163 thousand.

In 2020, the gain on sale of assets classified as held for sale includes also the net effect from the sales transaction with a combination of land and buildings, plant, fixtures and fittings of IHB Electric AD (in liquidation) of BGN 658 thousand.

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Costs of materials

BGN'000

| | 31 December 2020 | 31 December 2019 |
|---------------------|-----------------------------|-----------------------------|
| Main materials | (10,745) | (14,538) |
| Fuel used un ships | (9,067) | (10,097) |
| Auxiliary materials | (2,655) | (3,442) |
| Electric power | (1,578) | (2,250) |
| Spare parts | (2,161) | (2,211) |
| Other materials | (644) | (784) |
| | <u>(26,850)</u> | <u>(33,322)</u> |

The decrease in fuel consumption in the operation of ships during 2020 compared to 2019 is mainly due to the lower duration of charters for the periods.

The decrease in costs of electricity is primarily due to the lower prices of electricity in the reporting period. The commissioning of a photovoltaic power plant with a total installed capacity of 1.3 MWp in the town of Sliven has had an additional positive impact on these results.

Costs of hired services

BGN'000

| | 31 December 2020 | 31 December 2019 |
|--------------------------------------|-----------------------------|-----------------------------|
| Services of subcontractors | (5,570) | (6,478) |
| Port-related expenses | (4,614) | (6,126) |
| Insurances | (1,415) | (1,463) |
| Repairs | (921) | (1,077) |
| Security | (829) | (958) |
| Agency services | (619) | (1,733) |
| Civil contracts | (442) | (430) |
| Software maintenance on subscription | (425) | (500) |
| Other services | (2,706) | (2,590) |
| | <u>(17,541)</u> | <u>(21,355)</u> |

The decrease in the agency and subcontractors' services is mainly due to the reduced volume of work during the current period of the companies operating in the field of ship repair and machine building. Port costs decreased due, on the one hand, to the lower number of days in time charter, and on the other hand, to the different price levels of services applied by the loading and unloading ports.

Costs of personnel

BGN'000

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|-----------------------------|
| Salaries | (22,003) | (23,258) |
| Compulsory social insurance | (3,373) | (3,509) |
| Management contracts | (1,508) | (1,616) |
| Compulsory social and health insurance on management contracts | (105) | (117) |
| Accruals under IAS 19 – retirement benefits | (64) | (62) |
| Other personnel costs | (1,063) | (923) |
| | <u>(28,116)</u> | <u>(29,485)</u> |

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Other operating expenses

BGN'000

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|-----------------------------|
| Impairment | (8,740) | (5,303) |
| Business trips and replacement of crew | (707) | (1,152) |
| Local taxes and charges, tax on expenses and VAT | (702) | (998) |
| Scrapping and liquidation of fixed tangible assets | (128) | (254) |
| Provisions charged | 76 | 110 |
| Expenses on out-of-court agreements | (3,745) | - |
| Other expenses | (946) | (850) |
| | <u>(14,892)</u> | <u>(8,447)</u> |

On 5 December 2020, in Mombasa, Kenya, Motor ship (m / v) Diamond Sky, owned by ODRIA LTD, a subsidiary of Industrial Holding Bulgaria PLC, was arrested as collateral for a claim for incorrectly delivered cargo and expenses due to bankruptcy of the cargo charter. In January 2021, all claims relating to this case have been settled by an out-of-court settlement, the arrest of m / v Diamond Sky has been lifted and the ship is again fully operational. The amount used to settle the claims, as well as any expenses relating thereto, totalling to BGN 3,625 thousand, have been taken to the income statement for 2020 and presented as other operating expenses. To finance this liability in 2021, the Group has obtained a bank loan of USD 2,000 thousand.

Part of out-of-court expenses as at 31 December 2020 is also an amount of BGN 120 thousand – compensation for an accident at work paid to a worker of one of the Group companies.

Impairment

BGN'000

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|-----------------------------|
| Impairment of fixed assets | (8,676) | (4,263) |
| Impairment of receivables | (49) | (829) |
| Impairment of assets classified as held for sale | - | (83) |
| Impairment of inventories | (15) | (72) |
| Impairment of investment property | - | (56) |
| | <u>(8,740)</u> | <u>(5,303)</u> |

Considering the spread of the COVID-19 pandemic and its effect on the economic environment worldwide, the Group's management conducted, on a quarterly basis, impairment testing of the assets of Maritime Transport segment - the ships m/v Emona, m/v Karvuna, m/v Antea, m/v Dimond Sea, and m/v Dimond Sky. The impairment indicators relate to the following factors enumerated below:

- a 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 in 2020 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;
- increasing market volatility and instability (political risks, etc.).

During the first and second quarter, the recoverable amount of m/v Emona was determined by calculating its value in use. In the third quarter, the value of the ship was determined based on the ship's fair value considering the contract concluded by the Group on 09 November 2020 for its sale. The transaction was finalized in December. The total impairment accrued for m/v Emona in 2020 amounted to BGN 3,163 thousand.

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The recoverable amount of all other ships was determined by calculating their value in use. The total impairment loss on the impairment of fixed assets (ships) of the Maritime Transport segment, reported in 2020, amounted to BGN 8,676 thousand.

Finance income and finance costs for the reporting period:

BGN'000

Finance income

Foreign currency gains, net

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-----------------------------|-----------------------------|
| | - | 300 |
| | <u>-</u> | <u>300</u> |

Finance costs

Interest expenses

Foreign currency losses, net

Other finance costs

| | | |
|--|----------------|----------------|
| | (1,381) | (1,849) |
| | (2,200) | - |
| | (165) | (203) |
| | <u>(3,746)</u> | <u>(2,052)</u> |

Interest expenses

BGN'000

Interest expenses on bank loans received

Interest expenses on loans from related parties

Interest expenses on interest rate swap

Interest expenses on lease liabilities

Other interest expenses

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-----------------------------|-----------------------------|
| | (728) | (1,424) |
| | (210) | (249) |
| | (410) | (144) |
| | (33) | (31) |
| | - | (1) |
| | <u>(1,381)</u> | <u>(1,849)</u> |

Bank loans

Long-term

BGN'000

| | <u>Currency</u> | <u>Interest rate, %</u> | <u>Maturity</u> | <u>31 December 2020</u> | <u>31 December 2019</u> |
|---|-----------------|-------------------------|-----------------|---------------------------------|-----------------------------|
| Credit line for working capital financing amounting to BNG 5,500 thousand (31 December: BGN 7,000 thousand) | BGN | 1 M EURIBOR +1.6% | 2021 | 1,561 | 1,310 |
| Secured bank loan amounting to USD 37,300 thousand: long-term portion | USD | 1 M LIBOR + 1.5% | 2022 | 9,891 | 17,443 |
| Secured bank loan amounting to EUR 10,000 thousand: long-term portion | EUR | 1.9% | 2023 | 5,215 | 9,126 |
| Secured investment loan amounting to EUR 640 thousand; long-term portion | EUR | 1.6% | 2026 | 878 | 640 |
| | | | | <u>17,545</u> | <u>28,519</u> |

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Short-term

In BGN'000

| | Currency | Interest rate, % | Maturity | 31 December 2020 | 31 December 2019 |
|---|-----------------|-------------------------|-----------------|-------------------------|-------------------------|
| Secured bank loan amounting to USD 37,300 thousand: short-term portion | USD | 1 M LIBOR + 1.5% | 2022 | 7,434 | 8,073 |
| Secured bank loan amounting to EUR 10,000 thousand: short-term portion | EUR | 1.9% | 2023 | 3,917 | 3,920 |
| Secured investment loan amounting to EUR 640 thousand; short-term portion | EUR | 1.6% | 2026 | 170 | 170 |
| | | | | 11,521 | 12,163 |

The bank loans are secured by mortgages on land, buildings and transport vehicles (ships), and registered pledges on plant and equipment owned by Group companies with total carrying amount as at 31 December 2020 of BGN 216,325 thousand (31 December 2019: BGN 205,273 thousand). In addition, KRZ Port Bourgas AD has been pledged as an entity.

At 31 December 2020, the amount of the liabilities under bank loans from related parties according to IAS 24 amounted to BGN 17,325 thousand (2019: BGN 25,516 thousand). Further details are provided in the section Related Party Transactions.

At 31 December 2020, the unutilized limits on bank loans of the Group in the form of a credit line for working capital financing on bank loans contracted amounted to BGN 3,939 thousand.

The Group has hedged its interest rate risk relating to the change in the 1M LIBOR rate, by contracting an interest rate swap transaction covering the risk upon payment of interest on a secured bank loan totalling to USD 37,300 thousand (hedge of 80% of cash flows). Under the swap contract, the Group pays a fixed interest rate of 2.60% and receives a variable interest rate (1M LIBOR), with the payments being made on a net basis. The maturity under the interest rate swap contract coincides with the loan maturity – December 2022.

In May 2020, the Group renegotiated the terms and conditions of the secured bank loan of USD 37,300 thousand, as three of the instalments due for 2020 had been deferred and transferred to the last repayment instalment to be paid in December 2022. The nominal contingent principal of the interest rate swap transaction had also been changed to reflect the new loan repayment plan, and the fixed interest rate percentage of 2.88% was reduced to 2.60%.

In November 2020, the Group signed a framework agreement to provide a revolving credit limit for loans, bank guarantees and letters of credit totalling USD 3,000 thousand to facilitate the needs of the companies - shipowners and the management company from the Maritime Transport segment. The sub-limit for utilisation in the form of loans is USD 2,000 thousand. The term of the framework agreement matures is until November 2025. The contract is secured by a sea mortgage on one of the Group's ships.

In January 2021, the Group utilized USD 2,000 thousand under this framework agreement for the purpose of settling claims for incorrectly delivered cargo by m/v Dimond Sky. The loan term matures in September 2022 and is to be repaid in equal instalments as of February 2021. The interest rate under the contract is 1M LIBOR plus a 1.65% margin.

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Equity

Share capital - registered

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

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

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

Shareholders

The shareholders of Industrial Holding Bulgaria PLC holding more than 5% of the company's capital as of 31 December 2020 are as follows:

| <i>Shareholder</i> | Number of shares as at 31 December 2020 | 31 December 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* | 9,073,468 | 8.45% |
| Others | <u>44,671,860</u> | <u>41.59%</u> |
| | <u>107,400,643</u> | <u>100.00%</u> |

*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 – 31 December 2020, is 2,425,246 for the total amount of BGN 2,132 thousand were bought up. The number of the treasury shares redeemed as at 31 December 2020, 9,073,468 treasury shares amounting to BGN 8,668 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 disclosure under IAS 24

The consolidated financial data of the Group covers the following companies:

| | Country of registration | Equity interest | |
|--|-------------------------|------------------|------------------|
| | | 31 December 2020 | 31 December 2019 |
| | | % | % |
| Industrial Holding Bulgaria PLC | Bulgaria | Parent company | Parent company |
| Privat Engineering EAD | Bulgaria | 100.00 | 100.00 |
| ZMM Bulgaria Holding AD | Bulgaria | 100.00 | 100.00 |
| ZMM Sliven AD | Bulgaria | 95.98 | 95.98 |
| ZMM Nova Zagora AD | Bulgaria | 93.57 | 93.57 |
| IHB Metal Castings AD* | Bulgaria | 100.00 | 100.00 |
| IHB Electric AD (in liquidation) | Bulgaria | 97.87 | 97.87 |
| KRZ Port Bourgas AD | Bulgaria | 99.65 | 99.65 |
| KLVK AD | Bulgaria | 100.00 | 100.00 |
| International Industrial Holding Bulgaria AG | Switzerland | 100.00 | 100.00 |
| Maritime Holding AD | Bulgaria | 61.00 | 61.00 |
| Bulgarian Register of Shipping EAD | Bulgaria | 61.00 | 61.00 |
| Bulyard Shippbuilding Industry AD | Bulgaria | 100.00 | 100.00 |
| IHB Shipping Co EAD | Bulgaria | 100.00 | 100.00 |
| Emona LTD | Marshal Islands | 100.00 | 100.00 |
| Karvuna LTD | Marshal Islands | 100.00 | 100.00 |
| Odria LTD | Marshal Islands | 100.00 | 100.00 |
| Tirista LTD | Marshal Islands | 100.00 | 100.00 |
| Serdika LTD | Marshal Islands | 100.00 | 100.00 |
| Bulport Logistics AD | Bulgaria | 100.00 | 100.00 |
| Odessos PBM EAD | Bulgaria | 100.00 | 100.00 |
| IHB Shipdesign AD | Bulgaria | 70.00 | 70.00 |
| IHB 3 Design AD | Bulgaria | 61.00 | - |

On 15 January 2020, the General Meeting of Shareholders of IHB Electric AD (in liquidation) took a decision to terminate the company's activities and to declare it in liquidation. As at 30 November 2020, the liquidation process commenced and the liquidation quota (BGN 2.70 per share) was distributed along with the preparation of the company's final liquidation balance sheet. ON 22 January 2021, the General Meeting of Shareholders approved the results from the assets' distribution of IHB Electric AD (in liquidation) and took a decision to obliterate it from the register. The obliteration of the company from the Commercial Register at the Registry Agency was entered on 02 February 2021.

The newly incorporated company IHB 3 Design AD was registered in the Commercial Register on 10 February 2020 with capital of BGN 100 thousand split into 100,000 shares with nominal amount of BGN 1, of which Industrial Holding Bulgaria PLC subscribed and paid-in 51%.

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

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

- Bulls AD, a company that at 31 December 2020 holds, directly and indirectly, through a subsidiary, 41.61% of Industrial Holding Bulgaria PLC, which in view of the scattered shareholding structure of Industrial Holding Bulgaria PLC as a former privatization fund with more than 50,000 shareholders and the quorums at the GMS during the last two years, has made it possible for Bulls AD to exercise a majority vote and de facto control over the GMS of Industrial Holding Bulgaria PLC;
- Dimitar Zhelev, an individual controlling Bulls AD and a husband of Daneta Zheleva, the Chief Executive Director of Industrial Holding Bulgaria PLC.

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

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

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

Related party transactions

Trade and other receivables from related parties

BGN'000

Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff

| 31 December 2020 | 31 December 2019 |
|---------------------------------|---------------------------------|
| <u>5</u> | <u>7</u> |
| <u>5</u> | <u>7</u> |

Cash with banks – related parties

BGN'000

Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff

| 31 December 2020 | 31 December 2019 |
|---------------------------------|---------------------------------|
| <u>4,490</u> | <u>4,351</u> |
| <u>4,490</u> | <u>4,351</u> |

Interest-bearing loans and borrowings from banks – related parties

BGN'000

Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff

| 31 December 2020 | 31 December 2019 |
|---------------------------------|---------------------------------|
| <u>17,325</u> | <u>25,516</u> |
| <u>17,325</u> | <u>25,516</u> |

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Loans from related parties (including interest)

BGN'000

| | 31 December 2020 | 31 December 2019 |
|---|---------------------------------|---------------------------------|
| Persons exercising control within the meaning of IAS 24 | 5,004 | 10,617 |
| | 5,004 | 10,617 |
| Long-term portion | 2,437 | 7,306 |
| Short-term portion | 2,567 | 3,311 |
| Principal | 4,989 | 10,600 |
| Interest | 15 | 17 |

Trade and other payables to related parties

BGN'000

| | 31 December 2020 | 31 December 2019 |
|---|---------------------------------|---------------------------------|
| Entities under common control of the persons exercising control within the meaning of IAS 24 | - | 3 |
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | 9 | 10 |
| | 9 | 13 |

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

BGN'000

| | 31 December 2020 | 31 December 2019 |
|---|---------------------------------|---------------------------------|
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | 405 | 412 |
| | 405 | 412 |

Interest expenses accrued over the period 01 January 2020 – 31 December 2020 under the interest rate swap contract with a bank - related party amount to BGN 410 thousand (01 January 2019 – 31 December 2019: BGN 144 thousand), and interest paid amounts to BGN 352 thousand (01 January 2019 – 31 December 2019: BGN 135 thousand).

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Sales transactions

| <i>BGN'000</i> | Transaction type | 31 December 2020 | 31 December 2019 |
|---|------------------------------|---------------------------------|---------------------------------|
| Persons exercising control within the meaning of IAS 24 | Rental income | 1 | 1 |
| | | 1 | 1 |
| Entities under common control of the persons exercising control within the meaning of IAS 24 | Sale of services | 9 | 1 |
| | Rental income | 11 | 10 |
| | Sale of assets held for sale | 672 | - |
| | Other sales | 12 | 123 |
| | | 704 | 134 |
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | Sale of services | 48 | 76 |
| | Rental income | 83 | 76 |
| | Other sales | 380 | 6 |
| | | 511 | 158 |
| | | 1,216 | 293 |

In October 2020, the transaction for the sale of the last real estate (land and buildings) of IHB Electric AD (in liquidation) totalling to BGN 831 thousand was finalised with the buyer being an entity under common control with the Group. The carrying amount of the assets sold was BGN 159 thousand.

Purchase transactions

| <i>BGN'000</i> | Transaction type | 31 December 2020 | 31 December 2019 |
|---|----------------------------|---------------------------------|---------------------------------|
| Entities under common control of the persons exercising control within the meaning of IAS 24 | Purchase of materials | 3 | 24 |
| | Purchase of services | 3 | - |
| | | 6 | 24 |
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | Purchase of hired services | 749 | 928 |
| | Other finance costs | 122 | 156 |
| | | 871 | 1,084 |
| | | 877 | 1,108 |

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Liabilities under lease contracts with related parties

| <i>BGN'000</i> | <u>31 December 2020</u> | <u>31 December 2019</u> |
|---|---------------------------------|---------------------------------|
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | - | 28 |
| Total | <u>-</u> | <u>28</u> |

The fee due for the period from 01 January 2020 to 31 December 2020 under the lease contracts with entities over which the persons exercising control have significant influence or are members of their key management staff amounts to BGN 23 thousand (01 January 2019 – 31 December 2019: BGN 32 thousand) and cash outflow amounts to BGN 23 thousand (01 January 2019 – 31 December 2019: BGN 32 thousand).

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

| <i>BGN'000</i> | | <u>Amounts received</u> | <u>Principal paid</u> | <u>Interest expenses</u> | <u>Interest paid</u> |
|---|-----------------------------|-----------------------------|---------------------------|------------------------------|----------------------|
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | 31 December 2020 | - | (6,348) | (484) | (528) |
| Entities over which the persons exercising control within the meaning of IAS 24 have significant influence or are members of their key management staff | 31 December 2019 | - | (8,630) | (1,125) | (1,165) |
| | 31 December 2020 | <u>-</u> | <u>(6,348)</u> | <u>(484)</u> | <u>(528)</u> |
| | 31 December 2019 | <u>-</u> | <u>(8,630)</u> | <u>(1,125)</u> | <u>(1,165)</u> |

Movements of loans from related parties

| <i>BGN'000</i> | | <u>Amounts received</u> | <u>Principal paid</u> | <u>Interest expenses</u> | <u>Interest paid</u> |
|--|-----------------------------|-----------------------------|---------------------------|------------------------------|----------------------|
| Persons exercising control within the meaning of IAS 24 | 31 December 2020 | 3,319 | (8,800) | (209) | (211) |
| Entities under common control of the persons exercising control within the meaning of IAS 24 | 31 December 2020 | 1,704 | (1,202) | (1) | (1) |
| Persons exercising control within the meaning of IAS 24 | 31 December 2019 | 845 | (351) | (249) | (217) |
| Entities under common control of the persons exercising control within the meaning of IAS 24 | 31 December 2019 | - | - | - | - |
| | 31 December 2020 | <u>5,023</u> | <u>(10,002)</u> | <u>(210)</u> | <u>(212)</u> |
| | 31 December 2019 | <u>845</u> | <u>(351)</u> | <u>(249)</u> | <u>(217)</u> |

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Terms and conditions of related party transactions

The sales to and purchases from related parties are made at contractual prices. Outstanding balances at the period-end are unsecured (except for loans), interest free (except for loans) and the settlement is made in cash. There have been no guarantees provided to or received for related party payables or receivables, except for the ones listed below. For the period ended 31 December 2020 (31 December 2019: Nil), the Group had not written down related party receivables. A review for impairment is made every financial year through examining the financial position of the related party and the market in which the related party operates.

Commitments and contingencies

Legal claims

In connection with a ship repair, Bulyard Shippbuilding Industry AD has filed a claim with the Arbitration Court in London, according to the Rules of the Association of London Maritime Arbitrators (ALMA), for non-compliance by a client with payment commitments. Accordingly, the client has filed a counterclaim challenging the term of performance of the service and the volume of actions performed. The case is pending and the arbitration court has issued an order to secure the legal costs of the claim by the parties.

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 2020:

- bank guarantees amounting to BGN 20 thousand (31 December 2019: BGN 708 thousand) were issued to the following Group companies: 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 2019: BGN 3,000 thousand);
- a letter of credit for BGN 264 thousand was issued to Odessos PBM EAD (31 December 2019: Nil);
- a revolving credit line for working capital financing was opened amounting to BGN 5,500 thousand (31 December 2019: BGN 7,000 thousand). By means of an annex dated November 2020, the maximum allowed amount for utilization under the credit line was reduced from BGN 7,000 thousand to BGN 5,500 thousand. As of 31 December 2020, the amounts utilised under this revolving credit line for working capital financing by the subsidiary ZMM Sliven AD was BGN 223 thousand, by Odessos PBM EAD - BGN 200 thousand, by Bulyard Shippbuilding Industry AD – BGN 428 thousand, and by ZMM Nova Zagora AD – BGN 710 thousand, respectively.

As of 31 December 2020, the unutilized limit under this contract for provision of a credit limit amounted to BGN 3,939 thousand.

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

Collateral

In November 2020, in connection with the framework agreement to provide a revolving credit limit for loans, bank guarantees and letters of credit totalling to USD 3,000 thousand, the company-borrower and the company-co-borrower under the framework agreement concluded financial collateral agreements through a pledge of cash receivables on all their accounts with the bank-creditor in an amount that should be at least equal to the loan liability under the contract for the time, but not more than USD 3,000 thousand.

In 2019, in connection with a secured bank loan of EUR 600 thousand received for the purpose of financing the construction of a photovoltaic power plant, a company-borrower under the loan signed a financial collateral agreement through a pledge of receivables over all its accounts with the bank-creditor in an amount that should be at least equal to

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the loan liability, but not more than EUR 640 thousand. In 2020, the company-co-borrower under the loan also signed a financial collateral agreement.

In 2018, in connection with a contract concluded to secure a bank loan of the total amount of EUR 10,000 thousand, obtained for the purpose of partial financing of a debenture loan, Industrial Holding Bulgaria PLC and the entities-guarantors under the loan signed financial collateral agreements through a pledge of receivables providing for a right of use over all their accounts with the bank-creditor in an amount that should be at least equal to the loan liability, but not more than EUR 10,000 thousand.

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Non-systematic group specific risks

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

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

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.

The ongoing pandemic has had the greatest impact on maritime transport, increasing the risk of bankruptcies of charterers. In the current commercial practice in the industry, such bankruptcies have led to claims by charterers' creditors against shipowners and arrests of ships to satisfy these claims.

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:

- 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.

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. 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, bankruptcies of contractors, 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.

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.

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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 jointing 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.

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.

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Trends for businesses, in which Group companies operate

Maritime transport

The spread of COVID-19 had had a strong negative impact on the sector in 2020. At the beginning of the year, 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 in the second quarter due to the 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 and the decrease in the ships scrapped. In the second half of 2020, there is a tendency to stabilize the market, including at present. The Group's management benefited from the positive indications at and at the year-end, it sold the first and the oldest one of its ships – m/v Emona. Since the beginning of 2021, there has been a recovery in the freight market and a significant rise in market levels.

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. At the end of 2019 and in 2020 as well, the ballast systems of both ships from the IHB's fleet were installed, namely m/v Karvuna and 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.

Currently, **all vessels** of the Group are operational, including the arrest on m/v Dimond Sky was lifted and the ship will continue performing its current trade commitments.

Ship building and ship repair

Restrictions due to the COVID-19 pandemic blocked for a short period the opportunities for ship repair services by Bulyard Shipbuilding Industry in 2020, after which demand recovered. In the second half of the year and in the beginning of 2021, there has been a tendency for shipowners to postpone the class repairs of their ships, extending the registration certificates allowing them to sail by 3 to 6 months. This development has reduced the company's orders in the short term. However, the positive development in the shipping market since February 2021 has led to an increase in requests for repairs, with real orders and a positive effect being expected yet in March. A recovery of this type of business is also expected in view of the fact that the possibilities for postponing repairs will soon be exhausted, and without them, the ships will not be able to continue their operational activities. 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.

The negative impact of the pandemic and the significant uncertainty of the global economy future development have resulted in decrease in the construction of new vessels and postponed the modification and upgrading of existing vessels. Lots of old ships were cut during the pandemic. It is expected that the positive development in maritime transport will impact positively on the gradual recovery of ship building industry and will expand the company's ability to participate in such projects as a subcontractor for parts of the ship (metal structures, etc.).

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Ship design

Increased demand for design and ship repair services for retrofitting, refurbishing, converting and adding new equipment to existing ships in recent years, preconditioned the good start in 2020. However, countries' restrictions on limiting the spread of COVID-19 have had a negative impact to varying degrees on design services.

The market for retrofit services and 3D laser scanning has shrunk due to the inability to physically move people and photograph ships, thus eliminating the possibility to continue the process of designing the changes. The restrictions imposed a new kind of cooperation between different companies around the world. Management of IHB Shipdesign has contracted with local design companies from North and South America and Europe to supply 3D scanning services, and the design itself is performed at the company's office. These services recovered partially in the autumn as soon as the measures have been relaxed gradually by the different states since such services are sought in view of the new ecological requirements imposed on the industry to mount ballast systems. Because of the economic crisis, many shipowners take advantage of the opportunity to temporarily postpone their projects. However, the gradual expiration of the legal deadline for their implementation and the growth of the shipping market have increased the demand for retrofit services and 3D laser scanning at present, and give hope to partially compensate for the delay from 2020.

A decline was reported in the cruise ship market as well. The behaviour of shipowners in this situation is different. There were cases of cancelling construction contracts at an early stage. Others are postponing their projects to build new ships, modify and upgrade existing vessels until their future development is more predictable. 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. At the moment, the first orders for cruise ships are a fact. The easing of measures in a number of countries brings optimism to restart this market segment in 2021.

Collapse in oil prices in 2020 narrowed the price gap between high and low sulphur fuel, and reduced the cost-effectiveness for owners to supply their ships' engines with purifying (the so-called scrubber) systems that would allow them to continue to use high sulphur fuel. The recovery of this type of service directly depends on the oil prices. Its improvement, combined with the trend of stabilizing the freight market, began to attract the interest of ship owners to these systems and to revive the demand for services for the design and installation of scrubber systems.

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. In the future, the intensifying global policy for environmental protection may change the current regulations and environmental requirements towards vessels, which will have a positive impact on the demand and development of design services.

Classification and certification

The restrictions imposed to overcome the spread of COVID-19 impacted negatively on the activities of the **Bulgarian Ship Register (BRS)** as well. During the first six months of 2020, the number of inquiries and requests for inspections of ships decreased and, where possible, they were postponed by the shipowners, which was aggravated also by the inability to physically move people. After the partial lifting of travel restrictions in the autumn, the market intensified and recorded a slight increase in the requests submitted for examinations, a tendency at present as well. If possible, BRS inspectors visit the ships and carry out inspections that have been postponed. In case of restrictions, the company provides classification and certification services remotely or through agents and subcontractors.

The management's efforts are focused on finding new agents, attracting new shipowners, developing and offering additional services to the main ones. 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.

Port operations

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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.

The port terminals of **KRZ Port Bourgas** and **Odessos PBM** are part of the public transport ports in Bourgas and Varna. The COVID-19 pandemic and measures taken to limit its spread 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 depend on the volume of crops harvested in the port areas served by these terminals. In 2020, for some of the goods destined for countries with more extreme restrictive measures, there were cases of rejected orders by customers; however, the poor harvest in the country impacted even more negatively on these cargo flows. There is a tendency to direct investment efforts of the port terminals in the regions of Varna and Bourgas 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 Bourgas 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 port terminals 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 port terminals' diversification of cargo and their approved 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 offices and areas for storage and production activities. Continuing restrictions at the government level imposed in relation to the pandemic affected negatively the demand for office space and repairs of small vessels, due to shrinking economic activity of potential customers. Management expects that there will be greater clarity in business environment in the second half of 2021 and that it will be able to gradually let out the free office space in the medium term. The company is also looking for opportunities for alternative solutions to let out vacant space.

Machine building

Despite the good start of 2020 and the higher demand for metal-cutting machines offered by the Group compared to the same period in 2019, the restrictions imposed at the end of March by many countries around the world to limit the spread of COVID-19 and high uncertainty in business environment, affected negatively the investment activity of the clients of both **ZMM Bulgaria Holding** and its **subsidiaries**. A decrease in the volume of orders and revenue was observed. The negative effect was exacerbated by partial delays and difficulties in the shipment of finished products and the delivery of raw materials. However, the marketing communication of ZMM Bulgaria Holding not only did not decrease, but was seriously activated with the aim to make it clear to customers around the world that the holding's plants had continued to operate despite the difficulties in complying with all the necessary measures aimed at preserving human health. With the easing of anti-epidemic measures in the autumn, the trend began to change significantly. Months followed with strong orders. 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, new closures of borders and the limited ability to make business trips and participate in exhibitions will continue to have a negative effect.

Nevertheless, it is expected that the active marketing policy of ZMM Bulgaria Holding pursued in the last few years, the change in the pricing and product development processes in combination with the increased online presence, will continue to bear fruits - there is a steady trend of increasing the inquiries from end-customers with a very wide geographical diversification, which in the long run is expected to result in sustainable market positions for the companies operating in the machine building sector.

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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 March 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. 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.

2. Venside Enterprises Limited

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

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

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: 44,697,441 shares, representing 41.62% of votes

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

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

As at 31 December 2020, IHB held 9,073,468 redeemed treasury shares representing 8.45% 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.

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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

For the reporting period, there are no initiated or terminated cases in which the price of the claim amounts to or exceeds 10 percent of the equity of Industrial Holding Bulgaria PLC.

On 5 December 2020, in Kenya, Motor ship (m / v) Diamond Sky, registered in the port of Valletta, Malta, owned by ODRIA LTD, a subsidiary of Industrial Holding Bulgaria PLC, was arrested as collateral for a claim for incorrectly delivered cargo and expenses relating to the bankruptcy of the cargo charter at a value below the one indicated in item 1.30 of Annex 9.

As of the date of issue of this public notification, all claims relating to this case have been settled by signing an out-of-court settlement. The arrest of m / v Diamond Sky has been lifted and the ship is again operational.

On 16 December 2020, Industrial Holding Bulgaria PLC and KLVK AD claimed in court their rights of mortgage creditors under the first-ranking, respectively second-ranking, maritime mortgage on m / v Diamond Sky. At the date of this public notification, the court cases were dismissed. The value of each of the two claims is below the one indicated in item 1.30 of Annex 9.

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

Daneta Zheleva
Chief Executive Officer
Industrial Holding Bulgaria PLC

Ivan Rashkov
Chief Accountant

Vladislava Zgureva
Investors Relations Director