



INDUSTRIAL HOLDING BULGARIA

INDUSTRIAL HOLDING BULGARIA PLC

PUBLIC NOTIFICATION FOR FINANCIAL POSITION

31 December 2021

INDUSTRIAL HOLDING BULGARIA PLC
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For the period ended 31 December 2021

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. On 18 November 2021, the General Meeting of Shareholders of Industrial Holding Bulgaria PLC took a decision to reduce the capital of the Company from BGN 107,400,643 to BGN 96,808,417 by invalidating 10,592,226 redeemed treasury shares with par value of BGN 1 each. As of the date of this public notification, the 3-month statutory term for creditors is running and upon its expiration the reduction of the capital can be registered with the Commercial Register. The company has a two-tier system of governance, comprising Supervisory Board and Management Board.

The scope of activity of the Company includes the 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.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION
For the period ended 31 December 2021

NOTES

Separate Statement of Comprehensive Income

<i>BGN'000</i>	31 December 2021	31 December 2020
Interest and dividend income	7,226	16,359
Other operating income	12,933	87
	20,159	16,446
Costs of personnel	(722)	(619)
Costs of hired services	(182)	(201)
Other operating expenses	(282)	(24,753)
Operating profit	18,973	(9,127)
Finance costs	(196)	(282)
Finance income	31	-
Profit before tax	18,808	(9,409)
Income tax (expense) / benefit	1	1
Profit for the period	18,809	(9,408)
Other comprehensive income / (loss)	(8)	(7)
Total comprehensive income for the period, net of taxes	18,801	(9,415)

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION
For the period ended 31 December 2021

Separate Statement of Financial Position

<i>BGN'000</i>	31 December 2021	31 December 2020
ASSETS		
Non – current assets		
Non-current tangible and intangible assets	102	80
Right-to-use assets	630	787
Investments in subsidiaries	192,031	179,143
Loans to related parties	64,255	63,473
Differed tax asset	7	5
Total non-current assets	257,025	243,488
Current assets		
Loans to related parties	264	613
Trade and other receivables	820	525
Cash and cash equivalents	3,644	749
Total current assets	4,728	1,887
TOTAL ASSETS	261,753	245,375
EQUITY AND LIABILITIES		
Equity		
Share capital	107,400	107,400
Decrease in share capital pending registration	(10,592)	-
Share premium	31,016	30,604
Treasury shares redeemed	-	(8,668)
Statutory and other reserves	9,661	9,661
Retained earnings	112,158	93,357
Total equity	249,643	232,354
Non-current liabilities		
Interest-bearing loans and borrowings	326	5,215
Lease liabilities	488	646
Retirement benefit liabilities	46	35
Total non-current liabilities	860	5,896
Current liabilities		
Interest-bearing loans and borrowings	3,588	3,917
Lease liabilities	158	155
Deposits from related parties	7,418	2,967
Trade and other payables	86	86
Total current liabilities	11,250	7,125
Total liabilities	12,110	13,021
TOTAL EQUITY AND LIABILITIES	261,753	245,375

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Separate Statement of Cash Flows

BGN'000

	31 December 2021	31 December 2020
Operating activity		
Dividends received	2,216	12,390
Cash loans repaid from related parties	13,211	6,194
Cash loans to related parties	(13,993)	(17,694)
Interest received on loans to related parties	1,320	685
Payments on acquisition of stocks and shares	-	(51)
Proceeds from customers	53	87
Remuneration related payments	(672)	(618)
Foreign currency differences	33	-
Payments to suppliers and others	(312)	(220)
Net cash flows from operating activity	1,856	773
Investing activity		
Purchase of property, plant and equipment	(63)	(3)
Net cash flows used in investing activity	(63)	(3)
Financing activity		
Payments on redemption of treasury shares	(1,512)	(2,132)
Bank loans received	-	47
Principal paid on bank loan	(5,215)	(3,958)
Interest paid on bank loan	(135)	(214)
Charges paid on bank loan	(9)	(13)
Liabilities paid under lease contracts	(155)	(154)
Interest paid under lease contracts	(12)	(15)
Deposits from related parties	8,516	7,677
Refunded deposits from related parties	(368)	(2,892)
Interest paid on deposits from related parties	(4)	(23)
Other proceeds and payments	(4)	(3)
Net cash flows used in financing activity	1,102	(1,680)
Increase in cash and cash equivalents	2,895	(910)
Cash and cash equivalents on 1 January	749	1,659
Cash and cash equivalents on 31 December	3,644	749

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Separate Statement of Changes in Equity

BGN'000

	Share capital	Decrease in share capital pending registration	Share premium	Treasury shares redeemed	Statutory and additional reserves	Retained earnings	Total
Balance as at 1 January 2020	107,400	-	30,604	(6,536)	9,661	102,772	243,901
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	(9,408)	(9,408)
Other comprehensive income for the period	-	-	-	-	-	(7)	(7)
Total comprehensive income for the period	-	-	-	-	-	(9,415)	(9,415)
Transactions with shareholders recognised in equity							
Treasury shares redeemed	-	-	-	(2,132)	-	-	(2,132)
Total transactions with shareholders	-	-	-	(2,132)	-	-	(2,132)
Balance as at 31 December 2020	107,400	-	30,604	(8,668)	9,661	93,357	232,354
Balance as at 1 January 2021	107,400	-	30,604	(8,668)	9,661	93,357	232,354
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	18,809	18,809
Other comprehensive income for the period	-	-	-	-	-	(8)	(8)
Total comprehensive income for the period	-	-	-	-	-	18,801	18,801
Transactions with shareholders recognised in equity							
Treasury shares redeemed	-	-	-	(1,512)	-	-	(1,512)
Capital decrease	-	(10,592)	412	10,180	-	-	-
Total transactions with shareholders	-	(10,592)	412	8,668	-	-	(1,512)
Balance as at 31 December 2021	107,400	(10,592)	31,016	-	9,661	112,158	249,643

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Interest and dividend income

<i>BGN'000</i>	31 December 2021	31 December 2020
Dividend income	6,255	15,211
Interest income	971	1,148
	7,226	16,359

Dividend income of BGN 6,255 thousand was reported as at 31 December 2021 (31 December 2020: BGN 15,211 thousand), distributed by:

<i>BGN'000</i>	31 December 2021	31 December 2020
ZMM Bulgaria Holding AD	3,329	11,385
KRZ Port Burgas AD	2,092	1,405
IHB Shipdesign AD	698	1,268
Maritime Holding AD	136	150
Odessos PBM EAD	-	1,003
	6,255	15,211

The main portion of the dividend distributed as at 31 December 2020 by ZMM Bulgaria Holding AD is based on profits earned by its subsidiary IHB Electric AD (obliterated).

Interest income of BGN 971 thousand (31 December 2020: BGN 1,148 thousand) originates from interest-bearing receivables from subsidiaries on cash loans granted.

Other operating income

<i>BGN'000</i>	31 December 2021	31 December 2020
Impairment of investments reversed	12,888	-
Other operating income	45	87
	12,933	87

The Company's management has made an analysis as of 31 December 2021 and found that there are indications of reversal of impairment accrued in previous periods on investments in subsidiaries operating in the Maritime Transport segment. As a result of the high freight levels in 2021 the segment generated a significant amount of free monetary resources, which led to a reduction in its net debt. Management has performed a test for reversal of the impairment of these investments and, as a result, it has reversed the impairment of its investment in Privat Engineering in the amount of BGN 12,888 thousand. The assumptions are consistent with those made in the tests performed in the previous period.

Employee benefit expenses

<i>BGN'000</i>	31 December 2021	31 December 2020
Wages and salaries	(641)	(546)
Social insurance costs and other social payments	(81)	(73)
	(722)	(619)

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Other operating expenses

<i>BGN'000</i>	31 December 2021	31 December 2020
Depreciation / amortization expenses	(212)	(202)
Costs of materials	(34)	(27)
Investments impairment expenses	-	(24,507)
Other operating expenses	(36)	(17)
	(282)	(24,753)

Finance costs

<i>BGN'000</i>	31 December 2021	31 December 2020
Interest expenses on bank loans	(132)	(211)
Interest expenses on deposits from related parties, etc.	(38)	(39)
Interest expenses on lease contracts	(12)	(15)
Charges bank loans	(9)	(13)
Other finance costs	(5)	(4)
	(196)	(282)

Income tax

The Company owes no income taxes for the periods ended 31 December 2021 and 31 December 2020.

The reconciliation of income tax expenses and the accounting profit multiplied by the applicable rate for the periods ended 31 December 2021 and 31 December 2020 is as follows:

<i>BGN'000</i>	31 December 2021	31 December 2020
Accounting profit before taxes	18,808	(9,409)
Income tax expense at the applicable tax rate of 10% for 2021 (2020: 10%)	(1,881)	941
Income exempt from taxation – dividends	626	1,521
Non-deductible deferred tax asset on investment impairment expenses	-	(2,451)
Non-deductible deferred tax liability on reversal of investment impairment	1,289	-
Non-deductible deferred tax asset on other temporary differences for the current period	(7)	(1)
Tax loss, for which tax asset is not recognized	(26)	(9)
Income tax benefit / (expense) at an effective tax rate of 0% (2020: 0%)	1	1

As at 31 December 2021, the Company reported a deferred tax asset of BGN 7 thousand (at 31 December 2020: BGN 5 thousand) on accrued retirement benefit liabilities, the unused leave liability, the lease liability, and the right-of-use asset.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Investments in subsidiaries

Investments, held by the Company as of 31 December 2021 and 31 December 2020, were as follows:

<i>BGN'000</i>	Country of incorporation	31 December 2021		31 December 2020	
		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	45,601	100.000	32,713	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 (in liquidation)	Bulgaria	51	51.000	51	51.000
		192,031		179,143	

In November 2021, the General Meeting of Shareholders of IHB 3 Design AD took a decision to terminate the company's activities and to declare it in liquidation. The term of liquidation is 6 months as of 17 January 2022 – the date of registration of the notice to the Company's creditors with the Commercial Register.

In January 2022, Industrial Holding Bulgaria PLC purchased from its subsidiary the remaining shares of the capital of ZMM Bulgaria Holding AD and thus it became the sole equity owner of the company.

As described above in Other operating income, the company has recovered the impairment of its investment in Privat Engineering accrued in previous periods in the amount of 12,888 thousand.

Interest-bearing loans and borrowings

<i>BGN'000</i>	Currency	Interest rate %	31 December 2021	31 December 2020
Bank Loan Agreement 16 of 27 March 2018	EUR	1.9%	3,914	9,132
			3,914	9,132
Long-term portion			326	5,215
Short-term portion			3,588	3,917

The bank loan agreement 16 of 27 March 2018 concluded for the purpose to refinance part of the debenture loan is repaid in equal monthly instalments and matures in April 2023. Guarantors on the contract are subsidiaries. The contract is secured by mortgages on real estate (land and buildings) of a subsidiary.

In 2021 the Company repaid in advance BGN 1,304 thousand under Bank Loan Agreement 16 of 27 March 2018, representing the instalment for January 2022 and the last due instalments for February, March and April 2023.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Lease liabilities

<i>BGN'000</i>	<u>31 December 2021</u>	<u>31 December 2020</u>
Lease liabilities	646	801
Long-term portion	488	646
Short-term portion	158	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>	31 December 2021	31 December 2020
107,400,643 ordinary shares with a nominal value of BGN 1 each	<u>107,400</u>	<u>107,400</u>
	<u>107,400</u>	<u>107,400</u>

The company's capital comprises 107,400,643 registered dematerialised voting shares with a nominal value 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.

On 18 November 2021, the General Meeting of Shareholders of Industrial Holding Bulgaria PLC took a decision to reduce the capital of the Company from BGN 107,400,643 to BGN 96,808,417 by invalidating 10,592,226 redeemed treasury shares with par value of BGN 1 each. As of the date of this public notification, the 3-month statutory term for creditors is running and upon its expiration the reduction of the capital can be registered with the Commercial Register.

Shareholders

The shareholders of Industrial Holding Bulgaria PLC holding directly more than 5% of the company's capital as of 31 December 2021 are as follows:

<i>Shareholder</i>	Number of shares as at 31 December 2021	31 December 2021
BULLS AD	65,173,554	60.68%
DZH AD	9,657,874	8.99%
Industrial Holding Bulgaria PLC (treasury shares redeemed pending invalidation)	10,592,226	9.86%
Others	<u>21,976,989</u>	<u>20.46%</u>
	<u>107,400,643</u>	<u>100.00%</u>

Bulls AD has an agreement concluded with DZH AD for the implementation of a common company management policy through a joint exercise of the voting rights held, with the way of implementation being determined by Bulls AD.

INDUSTRIAL HOLDING BULGARIA PLC PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

The total number of the treasury shares held as at 31 December 2020 is 9,073,468 for the total amount of BGN 8,668 thousand. Over the period 01 January 2021 – 31 December 2021, 1,518,758 treasury shares amounting to BGN 1,512 thousand were bought up. The number of the treasury shares redeemed as at 31 December 2021 is 10,592,226 for the total amount of BGN 10,180 thousand. The General Meeting of Shareholders of the Company took a decision to invalidate these shares, as disclosed above.

By a decision of the General Meeting of Shareholders of Industrial Holding Bulgaria PLC of 18 November 2021, the current procedure for redemption of treasury shares was terminated. A new procedure was also initiated with the following parameters:

- number of shares to be redeemed annually for a period of five years - up to 3% of the registered capital of the Company for each calendar year, but not more than 10% in total for the entire redemption period and not more than 10% of the entire capital of the Company;
- minimum redemption price - BGN 1.00 per share;
- maximum redemption price - BGN 3.00 per share.

Related party disclosures

The Company is a related party with the following persons in accordance with the definitions of IAS 24:

I. Persons exercising control

- Bulls AD, a company that holds directly 60.68% of Industrial Holding Bulgaria PLC.
Bulls AD has an agreement concluded with another shareholder holding 9 657 874 shares representing 8.99% of the capital to implement a common company management policy through a joint exercise of the voting rights held, with the way of implementation being determined by Bulls AD.
- Dimitar Zhelev, a person exercising control over Bulls AD and husband of Daneta Zheleva, the Chief Executive Officer of Industrial Holding Bulgaria PLC.

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

IV. Entities, over which the persons that have control also exercise significant influence or are members of their key management personnel

V. Subsidiaries

- *Subsidiaries in which the Company holds direct control*

The direct subsidiaries of Industrial Holding Bulgaria PLC as at 31 December 2021 and 31 December 2020 are disclosed in *Investments in subsidiaries*.

- *Subsidiaries in which the Company holds indirect control*

IHB Metal Castings AD and IHB Electric (obliterated) are indirect subsidiaries of Industrial Holding Bulgaria PLC because they are subsidiaries of ZMM Bulgaria Holding AD, a direct subsidiary of Industrial Holding Bulgaria PLC. 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:

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Receivables from and payables to related parties

Loans to related parties

<i>BGN'000</i>	Type of transaction	31 December 2021	31 December 2020
<i>Subsidiaries</i>	Principal	64,255	63,473
	Interest	264	613
		64,519	64,086
Long-term portion		64,255	63,473
Short-term portion		264	613

The loans granted are secured by promissory notes, except for:

- the loan extended to Odria Ltd of BGN 16,660 thousand as at 31 December 2021, which is secured by a first ranking sea mortgage on m/v Dimond Sky, owned by the subsidiary.

Trade and other receivables

<i>BGN'000</i>	Type of transaction	31 December 2021	31 December 2020
<i>Subsidiaries</i>	Dividends	810	501
<i>Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel</i>	Prepayments	9	10
		819	511

Cash with banks – related parties

<i>BGN'000</i>	31 December 2021	31 December 2020
<i>Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel</i>	3,083	103
	3,083	103

Deposits from related parties

<i>BGN'000</i>	Note	31 December 2021	31 December 2020
<i>Subsidiaries</i>	Principal	7,395	2,960
	Interest	23	7
		7,418	2,967
Long-term portion		-	-
Short-term portion		7,418	2,967

Deposits received from subsidiaries as at 31 December 2021 are not secured and bear a fixed interest rate; they mature in September 2021. The terms and conditions of deposits as at 31 December 2020 remain the same.

In January 2022 Industrial Holding Bulgaria PLC received a loan of EUR 500 thousand from Bulls AD.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Sale transactions

<i>BGN'000</i>	Type of transaction	31 December 2021	31 December 2020
<i>Subsidiaries</i>	Dividend income	6,255	15,211
	Rental income	44	72
		<u>6,299</u>	<u>15,283</u>

Purchase transactions

	Type of transaction	31 December 2021	31 December 2020
<i>Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel</i>	Costs of hired services	14	15
	Other finance costs	2	1
		<u>16</u>	<u>16</u>

Loans to related parties

<i>BGN'000</i>		Amounts granted	Non-cash – (increase) / decrease	Principal repaid	Interest income	Interest received
Subsidiaries	31 December 2021	(13,993)	-	13,211	971	1,320
Subsidiaries	31 December 2020	(17,694)	-	6,194	1,148	685
	31 December 2021	(13,993)	-	13,211	971	1,320
	31 December 2020	(17,694)	-	6,194	1,148	685

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Deposits from related parties

<i>BGN'000</i>		Amounts received	Non-cash – increase / (decrease)	Principal paid	Interest expenses	Interest paid
Subsidiaries	31 December 2021	8,516	(3,731)	(368)	(38)	(4)
Subsidiaries	31 December 2020	7,677	(2,320)	(2,892)	(39)	(23)
	31 December 2021	8,516	(3,731)	(368)	(38)	(4)
	31 December 2020	7,677	(2,320)	(2,892)	(39)	(23)

Commitments and contingencies

Legal claims

No legal claims have been filed against the Company.

Guarantees

According to Contract 319 of 30 November 2006 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 2021:

- bank guarantees of BGN 20 thousand (31 December 2020: BGN 20 thousand) were issued to Group companies: 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 2020: BGN 3,000 thousand);
- a revolving credit line for working capital financing of BGN 5,500 thousand was opened (31 December 2020: BGN 5,500 thousand). As of 31 December 2021 amounts were not utilised by the Holding and/or its subsidiaries; if such occur, they will be presented net.

As of 31 December 2021, the unutilized limit under this contract for provision of a credit limit amounted to BGN 5,500 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.

In January 2021, the term of Contract 319 of 30 November 2006 was extended until 31 January 2023.

Collateral

To secure Bank loan agreement 16 of 27 March 2018 concluded 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 at the relevant time.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Non-systematic risks specific to the Company

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 businesses 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 IHB.

Risks arising from pandemics and epidemics

Globalization worldwide and the 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, limits and pose difficulties on the supply chain, and has an adverse impact on all economic agents. The development of the pandemic and possible extension / reduction of restrictive measures in individual countries are risks that can lead very fast to both improvement and deterioration of the external environment. There are already cases of compulsory vaccination of incoming foreigners in some countries, a practice that, if it grows as a process, may have a negative impact on certain businesses (maritime transport).

The high incidence of COVID-19 in Bulgaria at the moment and the still low vaccination rate create a number of difficulties in the implementation of the main business processes of the Holding and its subsidiaries. They are, on the one hand, due to key workers getting sick and / or being placed under quarantine at the same time, as well as to the need for key personnel to work remotely, predetermined by reasons to preserve health or the need to take care for children or other family members. On the other hand, the fact that Bulgaria continues to be placed into the red COVID zone has a negative impact on trading partners in making their purchase decisions (shipbuilding and ship repair).

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

The state of the global economy and demand for raw materials underpin the development of trade. Of all segments in the IHB's investment portfolio, the most direct and imminent impact they have on the 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
- increased environmental restrictions – the introduction of new eco-norms and directives against environmental pollution and for energy savings for vessels imposes mandatory reconstructions of vessels to comply with regulations, shortens the time of operation of ships, and make their operation more expensive;
- 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.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

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. The risk also affects the machine building industry by reducing sales volumes on traditional markets. The escalation of the conflict between Russia and Ukraine could also have a negative impact on ship repair, as an unstable environment could reduce cargo in the Black Sea and affect negatively the attractiveness of ships to carry out repair work in the Black Sea basin.

Risks associated with fraud and abuse

As a result of the spread of the COVID-19 pandemic, the risk of fraud and abuse increases, including that related to cyber-attacks, unscrupulous trade practices, bankruptcies of contractors, etc.

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 pressure on phasing out the use of traditional energy sources (such as oil or gas) is growing worldwide, which for the Group has its strongest impact on maritime transport. Restrictive duties are being introduced on imports of raw materials from countries that do not follow the European Union's environmental policies.

The Group's policy is to comply with all regulatory obligations in the area of ecology, 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.

Risk related to the prices of basic raw materials, materials and energy sources

This risk results from changes in the prices of raw materials, materials and various energy sources being used. The rise in prices has an extremely unfavourable effect on the results of manufacturing companies operating in metal-intensive and energy-absorbing segments, such as machine building, shipbuilding and ship repair. Maritime transport is highly dependent on the prices of fuels, which are a commodity. The impact of changes in the market price of electric energy is similar, as the electric energy is subject to international supply and demand and is determined by factors beyond the control of management. For several years now, the supply of electric energy has been negotiated at a Group level on the open market.

Since the beginning of 2021, the level of this risk has been high. Gas, electricity and heat prices have already risen sharply across Europe. The price jump cannot be transferred directly to the end customers and will significantly affect the profitability of the products and services offered by the Group.

Risk caused by disrupted supply chains

The risk of further increases in international prices of raw materials and goods is increasing more and more due to broken supply chains. It is difficult to determine what part of inflation is due to the recovery of demand after easing the restrictive measures and what to the problems with supplies caused by congested ports and the shortage of raw materials and workers. The problems of disruption of global chains for the production and supply of goods and raw materials feed inflation at a rapid pace and confront central banks with a new problem. Rising interest rates will affect demand, which has driven the world out of recession in 2020, but will not help much with supply problems. If the shortage then eases and trade returns to normal, the policy may appear too restrictive and halt the recovery. However, if banks refrain from action and supply problems continue, expectations of higher inflation may increase, which will force companies to raise wages and prices, and could result in rapid interest rate hikes and tighter fiscal conditions.

INDUSTRIAL HOLDING BULGARIA PLC

PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

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 not only a capacity crunch. The lasting trend of declining and aging population in our country naturally reduces people of working age, including that of the low-skilled. 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.). Vaccination requirements in Europe and the world as a prerequisite for many economic activities are putting additional pressure. The most affected segments are that of machine building, maritime transport, ship design and ship repair segments. Management has adopted a long-term approach to human resource management related to preliminary and subsequent qualification of staff, as well as a close cooperation with the academic society in the country.

Credit risk

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

Receivables from clients – The Group's credit risk exposure depends on the customer's individual characteristics that differ between sectors. The most affected segments are that of ship building, ship design, classification and certification, and port activities.

Currently, the credit risk worldwide and for the Group in particular is still high due to the COVID-19 implication. The Group's credit policy provides for that each new client shall be investigated for solvency before being offered the standard delivery and payment terms and conditions. Besides the price offered, when selecting a potential client or a charterer managers consider its credit rating, reputation, popularity, recommendations, etc.

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

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

Liquidity risk

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

INDUSTRIAL HOLDING BULGARIA PLC

PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

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 currently effective exchange rate. The Group is currently exposed to currency risk from changes in the exchange rate of the US Dollar in relation to the free cash flows generated by maritime transport. The increase in the revenue share from foreign ships in total sales strengthens the impact of this 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. Rising inflation in 2021 could lead to a change in Central Banks' policies to increase interest rates and impose tighter fiscal conditions in future.

Systematic risks

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

Trends for businesses, in which the Group companies operate

Maritime transport

The shipping market has maintained its high growth rate over the entire 2021. The demand for ship tonnage increased significantly freight levels, reaching their highest levels for the last 10 years. The main impetus for the restart of maritime transport was given by the recovery of the global economy, accompanied by the need to supply of many and different goods. Congestion in many ports has blocked part of the available ship tonnage and as a result price levels have risen. The high levels of freight throughout 2021 were also supported by the incentives taken by many countries, which increased the volumes of all types of cargo. Complicated relations among some countries have changed cargo flows and forced deliveries from more distant destinations with smaller vessels. All these factors contributed to the segment achieving high positive results.

Despite the rise in the price of scrap metal, the cutting of old vessels and reduction of tonnage in operation continues at a slow pace and volume, as many owners try to make the most of market demand and high freight before scrapping their old ships. This has had a negative impact on orders for new vessels, which remain at record lows. The impact of the serious rise in the prices of steel, fuels and the ever-increasing environmental requirements towards new ships is similar and requires higher investments in acquisitions. At the same time, there is no foreseeable horizon in which the owners of the new vessels will be able to operate them without making additional costs for compliance with regulatory changes and restrictions. Moreover, the concept of environmentally friendly marine fuel in view of the new regulations is not clear.

It is expected that the logistics chains will recover gradually and stocks will replenish in 2022. As a result, the market may score a decline and then calm down and stabilize at relatively high levels of freight. The future of shipping will depend on the development of the COVID-19 pandemic and its impact on the global economy, the US-China trade war, numerous local conflicts and sanctions that were imposed.

INDUSTRIAL HOLDING BULGARIA PLC

PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

The Group's ships sail with Bulgarian crews, the recruitment of which is a serious problem due to the convertible nature of their professions and limited number of qualified staff.

The profitability of this segment of the Group's portfolio is influenced by the existing convention for ballast water treatment, which is being implemented in stages. After the two ships from the fleet of IHB - m / v Karvuna and m / v Anteya, in September 2021 a ballast system was installed on m / v Diamond Sea as well. The m / v Diamond Sky will cover the new environmental standards in its upcoming class renovation scheduled for the first half of 2022. These mandatory investments 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. In the coming years, the impact of other new regulations for the reduction of carbon dioxide emissions in the atmosphere in accordance with Plan 2030-2050 will be assessed, as well as possible solutions to comply therewith.

Ship building and ship repair

The expectations for business recovery in 2021 were conditioned primarily by the need for the ship repairs, postponed due to the pandemic, to be carried out so that the vessels could continue operating. Following this trend, orders gradually recovered in the first months of the year. However, the high freight levels in shipping had impacted adversely on the workload of Bulyard Shipbuilding Industry AD in the second half of the year, as they again encouraged shipowners to postpone class repairs in order to take advantage of the peak of the market or, if not able to postpone them, to limit the volume of repairs to a minimum in order to shorten the term and reduce losses of ships being out of charter. Price competition in the industry at the regional level has intensified a lot, especially strengthened by the highly depreciated Turkish lira, which has created additional competitive advantages for factories in our southern neighbour. It is expected that the revenue earned by the shipyard in 2021 to be lower than those reported in 2020. The industry was also negatively affected by the sharp jump in the prices of materials and especially of energy resources.

Following the reduced construction of new and the delayed modification and upgrade of existing vessels in 2020 due to the COVID-19 pandemic, at present new orders are still very low, supported by high levels and uncertainties surrounding fuels, respectively the engines that ships will be able to use in the future.

Shrinking possibilities of postponing mandatory repairs and the downturn in the freight market have increased demand for ship repairs at the end of 2021. The orders contracted by Bulyard Shipbuilding Industry AD for execution in 2022 have boosted expectations for a better new year in terms of volume and revenue.

In 2021 and at the moment, new construction orders continue to remain at low levels, supported by high levels and uncertainties about fuels, respectively the engines that ships will be able to use in the future. These factors limit the subsidiary's ability to participate in such projects.

Ship design

The continuing low levels of new shipbuilding orders over 2021 have affected the development of design services in several directions. On the one hand, increasingly large measures and rules to reduce the greenhouse effect of ships are pushing for orders for new construction due to the lack of clarity at the moment what ships will be sought, with what engines and what fuel they will operate. The development of alternatives is still at an early stage. There is also no foreseeable time horizon in which owners can operate their ships without the need for additional investment to meet the dynamically changing environmental regulations.

On the other hand, weak orders for new ships in 2021 have boosted the market for retrofit services and 3D laser scanning. The COVID-19 pandemic has resulted in a new type of cooperation between different companies around the world. Management of **IHB Shipdesign** negotiates with local design companies from North America, South America and Europe the provision of 3D scanning services, while the design itself is carried out at the company's office. Initially due to the crisis and then due to high levels of freight, many shipowners have temporarily postponed their projects related to the environmental requirements in the industry for the installation of ballast systems in order to make the most of favourable market opportunities. This situation affected adversely the company's orders and profitability in 2021. It is expected that gradual expiration of the statutory deadline for the implementation of these projects in 2022 will stimulates the demand for design services.

INDUSTRIAL HOLDING BULGARIA PLC

PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

The partial resumption of cruises in 2021 has also boosted the passenger ship market. However, it is directly dependent on the development of the pandemic and the measures to limit it imposed by the countries.

The management of IHB Shipdesign monitors the trends in the development of the environmental protection policy. It is expected that in 2022 the so-called hybridization of ships – installation of batteries on smaller vessels with a limited navigation area, mooring in ports, as well as of charging stations on the quays, which can reduce fuel consumption by about 70%. The company works to cooperate with a manufacturer of such equipment. Interest in specialised ships (new and retrofit) related to the construction and maintenance of wind farms located on water is also expected to gradually increase. Increasing environmental pressures worldwide will continue to change the current regulations on vessels, which is expected to have a positive impact on the demand for design services.

Classification and certification

The Bulgarian Ship Register (BRS, the Register) maintained the trend of revenue growth throughout the entire 2021 year. The rise in the exchange rate of the US Dollar in the last weeks of the year has had a positive effect on the company's financial results. Despite ongoing restrictions due to the COVID-19 pandemic, the main portion of the requested inspections of vessels have been completed. Thanks to the established network of representatives of BRS abroad, the Register provides its customers with a competitive service in terms of price and deadline for completion.

In 2021, the Register completed the supervision of the construction of the new tourist catamaran for passenger transport ordered by the Burgas municipality. The company signed a contract with N. Y. Vaptsarov Naval Academy on conducting reviews for assigning a class to a training and research ship. The supervision is expected to take place in 2022.

At the end of 2021, the company successfully passed an inspection by the Maritime Administration Executive Agency in connection with the renewal of the authorisation to inspect ships sailing inland waterways, and signed a new contract with the Agency for the inspections of ships and small vessels, in which new items that need inspection have been added and which expand the range of services offered by BRS.

The management's efforts are focused on finding new agents, attracting new shipowners, developing and offering additional services to the main ones. A precondition for the above and in order to be able to apply for approval by new Flag Administrations is the position of average performance retained by BRS, as evidenced by the latest publication of the Paris Memorandum on the Presentation of the Recognized Organizations in 2021.

Port operations

The port terminals of **KRZ Port Burgas** and **Odessos PBM** are part of the public transport ports in Burgas and Varna. Their development depends to a 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.

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. As a result of the poor grain harvest in the country in 2020, the loads are weak in the first half of 2021. The new harvest in 2021 enjoyed high yields and the large terminals exported well in the second half of the year. Record levels of sea freight have forced grain traders to increase volume of shipments, which has had a negative effect on small ports. The port terminals in the regions of Varna and Burgas direct their efforts 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.

Small stocks were maintained for general cargo. Metal traders are still cautious. The recovery of these cargo volumes from before the pandemic depends on the development of the economy and investments in infrastructure and construction projects, and most of all, on the European policy regarding the import from third countries.

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 uncertainties caused by the pandemic affect negatively the demand for office space and repairs of small vessels in 2021 additionally reinforced by the high price of energy sources. Potential customers showed low interest and low activity. Management expects that there will be greater clarity in business environment in 2022 so that t be able to grab any

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

opportunity to possibly improve it and gradually let out the vacant office space in the medium term. The company is also looking for opportunities for alternative solutions in this direction, monitoring the market of shared spaces.

Machine building

Despite the ongoing pandemic of COVID-19, 2021 began with a reviving investment activity of the customers of both **ZMM Bulgaria Holding** and its **subsidiaries**. Demand for metal-cutting machines offered by the Group maintained high growth throughout the year. Demand was difficult to satisfy and it found its expression in extended deadlines for the execution of orders. Some small details were subcontracted to external subcontractors. Certain manufacturing sectors operate with increased working hours, a trend that was observed throughout the year. The significant number of people affected by the pandemic waves also contributed to the extended deadlines. Business support measures introduced by the state have helped to retain staff, however increased capacity has led to a new shortage of skilled labour. Increased demand in all areas of industry has also increased the delivery time of key components. A sharp delay in the supply of some non-standard components not in stock in the warehouses of the companies had been observed. It was necessary to look for substitutes and alternative suppliers, which in turn had led to the conclusion of additional framework agreements specifying estimated quantities and dates with fixing of prices. The product structure was also reviewed and the profitability of the groups of models analysed. Gradual replacement of models comprising a large number of disparate components with such that have the same technical parameters, but consisting of unified details, began.

The sharp rise in the prices of basic raw materials, which was reflected in increased costs of input materials and a significant increase in the prices of key suppliers impacted negatively on the profitability in 2021. The record high price of energy sources, which was most felt in the fourth quarter, when the solar power plants in the machine-building group operated with reduced capacity, also exerted negative pressure. Extended production deadlines agreed with customers at an earlier stage at lower prices, combined with rising supply and energy prices, reduced profitability in 2021. To reduce this effect in 2022, at the end of the past year management adjusted in advance the prices of machines being manufactured and unified the discounts granted to the trade partners.

The development of the pandemic in 2022 and the restrictions imposed locally to preserve the health of the teams on the spot, possible new closing of the borders and the limited opportunity to travel and participate in exhibitions will continue to have their negative effect.

The active and consistent marketing policy pursued by ZMM Bulgaria Holding, the change in the pricing and product development processes in combination with the increased online presence, will continue to bear fruits.

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Information pursuant to Appendix N 4 to Ordinance N 2 on initial and subsequent disclosure of information in public offering of securities and admission of securities to trading on a regulated market

Change in individuals exercising control over the company

There were no changes in the ultimate persons exercising control over the Company at 31 December 2021.

As at 31 December 2021, 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 2021: 65,173,554 shares held directly, representing 60.68% of the capital pursuant to an agreement concluded on 9 August 2021 with DZH AD for the implementation of a common company management policy through a joint exercise of the voting rights held by DZH AD, with the way of implementation being determined by Bulls AD – 9,657,874 shares, representing 8.99 % of the capital, or in total directly and pursuant to the agreement the company is able to determine the way of exercising the voting rights on 74,831,428 shares, representing 69.68 % of the capital.

2. 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 2021: 9,657,874 shares held directly, representing 08.99% of the capital. DZH AD has an agreement concluded for the implementation of a common management policy of Industrial Holding Bulgaria PLC with Bulls AD, with the way of exercising the right to vote at the General Meeting of Shareholders of the Company attached to the shares held by DZH AD being determined by Bulls AD.

3. 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 2021: 41,044 shares held directly, representing 0.03% of the capital, and through related parties 9,658,520 shares in total, representing 8.99% of the capital, or directly and through related parties 9,699,564 shares in total, representing 9.03% of the capital.

4. 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 2021: 646 shares held directly, representing 0.0006% of the capital, and through related parties 41,044 shares, representing 0.03% of votes, and controlled through Bulls AD 74,831,428 shares, representing 69.68% of the capital, or directly and through related parties and through controlled parties 74,873,118, representing 69.71% of the capital.

Dimitar Georgiev Zhelev controls Bulls AD.

Dimitar Zhelev and Daneta Zheleva are spouses.

As at 30 September 2021, IHB held 10,592,226 redeemed treasury shares representing 9.86% of the Company's capital; pursuant to article 187a, paragraph 3 of the Commercial Act, the voting right attached to these shares has

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

been suspended. On 18 November 2021, the General Meeting of Shareholders took a decision to reduce the capital of the Company by invalidating the held 10,592,226 redeemed treasury shares. The decision to reduce the capital was announced to the Commercial Register and the Register of Non-profit Legal Entities and its registration is pending after the expiration of the time period prescribed by the Commercial Act.

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

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 Mombasa, 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 due to the bankruptcy of the cargo charter party. In January 2021, all claims in connection with this case were settled by a signed out-of-court settlement, the arrest of the ship was lifted and the ship was again operational.

On 16 December 2020, Industrial Holding Bulgaria PLC and KLVK AD claimed in court their rights to mortgage creditors under the first-ranking, respectively second-ranking, maritime mortgage on m / v Diamond Sky. In March 2021 all cases have been discarded.

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

On 25 October 2021, the subsidiary of ZMM Bulgaria Holding AD acquired from Industrial Holding Bulgaria AD 2 shares of the capital of IHB Metal Castings EAD.

As a result of the transaction, ZMM Bulgaria Holding AD is currently the sole equity owner of the company.

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

INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL POSITION

For the period ended 31 December 2021

Ivan Rashkov
Chief Accountant

Vladislava Zgureva
Investors Relations Director