



INDUSTRIAL HOLDING BULGARIA

**INDUSTRIAL HOLDING BULGARIA PLC
PUBLIC NOTIFICATION FOR FINANCIAL
POSITION ON A CONSOLIDATED BASIS
31 December 2021**

INDUSTRIAL HOLDING BULGARIA PLC

Public notification for financial position on a consolidated basis

For the period ended 31 December 2021

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. 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. The registration with the Commercial Register is pending the expiry of the statutory deadlines.

The company has a two-tier system of governance, comprising Supervisory Board and Management Board.

As at 31 December 2021, Industrial Holding Bulgaria PLC has 10 direct subsidiaries (31 December 2020: 10), no associates (31 December 2020: Nil), and 10 indirect subsidiaries (31 December 2020: 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, with the exception of IHB Design AD (in liquidation), for which the General Meeting of Shareholders took a decision in November 2021 to discontinue its activity and announce it in liquidation. The term of liquidation is 6 months as of 17 January 2022 - the date of announcing the invitation to the creditors of the Company in the Commercial Register.

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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For the period ended 31 December 2021

NOTES

Consolidated income statement

For the period ended 31 December 2021

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|------------------------|
| Revenue | 130,735 | 88,852 |
| Other operating income | <u>5,316</u> | <u>5,403</u> |
| | 136,051 | 94,255 |
| Change in stock of work in progress and finished products | (509) | (380) |
| Costs of acquisition and development of assets' self-construction | 1,079 | 979 |
| Costs of materials | (29,789) | (26,890) |
| Costs of hired services | (20,484) | (17,461) |
| Depreciation / amortization expenses | (12,792) | (13,788) |
| Costs of personnel | (29,578) | (28,116) |
| Other operating expenses | <u>(3,406)</u> | <u>(15,228)</u> |
| Operating profit | <u>40,572</u> | <u>(6,629)</u> |
| Finance income | 5,276 | - |
| Finance costs | <u>(986)</u> | <u>(3,756)</u> |
| Profit before tax | <u>44,862</u> | <u>(10,385)</u> |
| Income tax expense | <u>(750)</u> | <u>(1,176)</u> |
| Profit for the year | <u>44,112</u> | <u>(11,561)</u> |
| Attributable to: | | |
| Equity holders of the parent | 43,721 | (12,004) |
| Non-controlling interests | 391 | 443 |

INDUSTRIAL HOLDING BULGARIA PLC
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Consolidated statement of financial position

As at 31 December 2021

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Non – current assets | | |
| Property, plant and equipment | 315,022 | 309,812 |
| Intangible assets | 2,496 | 2,461 |
| Goodwill | 9,130 | 9,130 |
| Investment property | 13,075 | 13,226 |
| Right-of-use assets | 297 | 1,536 |
| Differed tax asset | 37 | 66 |
| Trade and other receivables | 18 | 24 |
| Total non-current assets | <u>340,075</u> | <u>336,255</u> |
| Current assets | | |
| Inventories | 18,155 | 16,897 |
| Trade and other receivables | 9,654 | 7,481 |
| Contract assets | 513 | 1,023 |
| Income tax receivable | 90 | 13 |
| Cash and cash equivalents | 14,962 | 6,942 |
| Total current assets | <u>43,374</u> | <u>32,356</u> |
| Assets classified as held for sale | 626 | 1,157 |
| TOTAL ASSETS | <u>384,075</u> | <u>369,768</u> |

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Consolidated statement of financial position

As at 31 December 2021

(continued)

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|---|------------------------------|------------------------------|
| 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) |
| Other reserves | 84,948 | 84,690 |
| Reserve from foreign exchange translation of foreign operations | 16,421 | 11,597 |
| Retained earnings | 119,477 | 75,971 |
| | <u>348,670</u> | <u>301,594</u> |
| Non-controlling interest | 2,237 | 2,258 |
| Total equity | <u>350,907</u> | <u>303,852</u> |
| Liabilities | | |
| Non-current liabilities | | |
| Interest-bearing loans and other borrowings | 1,003 | 17,610 |
| Loans from related parties | - | 2,437 |
| Lease liabilities | 4 | 1,259 |
| Derivative financial liability | - | 123 |
| Trade and other payables | 63 | 146 |
| Financing | 1,261 | 1,371 |
| Retirement benefit liabilities | 931 | 804 |
| Deferred tax liabilities | 10,540 | 10,563 |
| Total non-current liabilities | <u>13,802</u> | <u>34,313</u> |
| Current liabilities | | |
| Interest-bearing loans and other borrowings | 3,774 | 11,456 |
| Loans from related parties | 157 | 2,567 |
| Lease liabilities | 326 | 306 |
| Derivative financial liability | - | 282 |
| Trade and other payables | 9,224 | 13,200 |
| Contract liabilities | 5,676 | 3,334 |
| Provisions | 13 | 250 |
| Financing | 109 | 109 |
| Income tax liability | 87 | 99 |
| Total current liabilities | <u>19,366</u> | <u>31,603</u> |
| Total liabilities | <u>33,168</u> | <u>65,916</u> |
| TOTAL EQUITY AND LIABILITIES | <u><u>384,075</u></u> | <u><u>369,768</u></u> |

INDUSTRIAL HOLDING BULGARIA PLC
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For the period ended 31 December 2021

Consolidated statement of cash flows

For the period ended 31 December 2021

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|---|------------------------|------------------------|
| <i>Operating activity</i> | | |
| Proceeds from customers | 134,197 | 90,828 |
| Payments to suppliers | (56,681) | (47,293) |
| Staff remuneration related payments | (28,533) | (28,160) |
| Corporate income taxes paid | (882) | (901) |
| Other taxes refunded /(paid) | 2,154 | 661 |
| Foreign currency differences | 14 | (44) |
| Financing received | 3,817 | 2,192 |
| Other payments | (6,095) | (793) |
| Net cash flows from operating activity | <u>47,991</u> | <u>16,490</u> |
| <i>Investing activity</i> | | |
| Proceeds on sale of property, plant and equipment | 62 | 7,872 |
| Payments on the acquisition of fixed assets and assets' self-construction | (7,247) | (4,943) |
| Net cash flows used in investing activity | <u>(7,185)</u> | <u>2,929</u> |
| <i>Financing activity</i> | | |
| Payments on redemption of treasury shares | (1,512) | (2,132) |
| Interest-bearing loans and other borrowings received | 3,422 | 6,511 |
| Interest-bearing loans and other borrowings paid | (33,438) | (21,260) |
| Lease liabilities paid | (304) | (333) |
| Dividends paid | (347) | (611) |
| Interest paid on loans and borrowings | (412) | (987) |
| Interest paid on leases | (24) | (32) |
| Charges and commission fees paid on loans and other borrowings | (64) | (28) |
| Amounts paid on an interest rate swap contract | (460) | (352) |
| Other payments | (122) | (94) |
| Net cash flows used in financing activity | <u>(33,261)</u> | <u>(19,318)</u> |
| Net increase / (decrease) in cash and cash equivalents | 7,545 | 101 |
| Cash and cash equivalents on 1 January | 6,942 | 7,542 |
| Foreign exchange translation effects | 475 | (701) |
| Cash and cash equivalents on 31 December | <u>14,962</u> | <u>6,942</u> |

INDUSTRIAL HOLDING BULGARIA PLC
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Consolidated statement of changes in equity

For the period ended 31 December 2021

| <i>In BGN'000</i> | Attributable to the equity owners of the parent company | | | | | | | | | | Non-Total equity | |
|---|---|--|---------------|--------------------------|-----------------------------------|---------------------|---|--------------------------|-------------------|----------------|----------------------|----------------|
| | Share capital | Decrease in share capital pending registration | Share premium | Treasury shares redeemed | Statutory and additional reserves | Revaluation reserve | Reserve from foreign exchange translation of foreign operations | Cash flows hedge reserve | Retained earnings | Total | controlling interest | |
| At 1 January 2021 | 107,400 | | 30,604 | (8,668) | 4,974 | 80,015 | 11,597 | (299) | 75,971 | 301,594 | 2,258 | 303,852 |
| Total comprehensive income for the period | | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | - | 43,721 | 43,721 | 391 | 44,112 |
| Other comprehensive income for the period | - | - | - | - | - | - | 4,824 | 299 | (256) | 4,867 | (7) | 4,860 |
| Total comprehensive income for the period | - | - | - | - | - | - | 4,824 | 299 | 43,465 | 48,588 | 384 | 48,972 |
| Transactions with shareholders recognised in equity | | | | | | | | | | | | |
| Profit distribution to reserve | - | - | - | - | 150 | - | - | - | (150) | - | - | - |
| Dividends distributed | - | - | - | - | - | - | - | - | - | - | (405) | (405) |
| Treasury shares redeemed | - | - | - | (1,512) | - | - | - | - | - | (1,512) | - | (1,512) |
| Capital decrease | - | (10,592) | 412 | 10,180 | - | - | - | - | - | - | - | - |
| Liquidation quota distribution | - | - | - | - | - | - | - | - | - | - | - | - |
| Total transactions with shareholders | - | (10,592) | 412 | 8,668 | 150 | - | - | - | (150) | (1,512) | (405) | (1,917) |
| Transfer of revaluation reserve of assets sold to retained earnings | - | - | - | - | - | (191) | - | - | 191 | - | - | - |
| At 31 December 2021 | 107,400 | (10,592) | 31,016 | - | 5,124 | 79,824 | 16,421 | - | 119,477 | 348,670 | 2,237 | 350,907 |

INDUSTRIAL HOLDING BULGARIA PLC

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Consolidated statement of changes in equity

For the period ended 31 December 2020

| <i>In BGN'000</i> | Attributable to the equity owners of the parent company | | | | | | | | | | Total equity |
|---|--|----------------------|---------------------------------|--|----------------------------|--|---------------------------------|--------------------------|-----------------|---------------------------------|---------------------|
| | Share capital | Share premium | Treasury shares redeemed | Statutory and additional reserves | Revaluation reserve | Reserve from foreign exchange translation of foreign operations | Cash flows hedge reserve | Retained earnings | Total | Non-controlling interest | |
| 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 | - | - | - | - | - | - | - | (12,004) | (12,004) | 443 | (11,561) |
| Other comprehensive income for the year | - | - | - | - | - | (8,481) | 54 | (189) | (8,616) | (5) | (8,621) |
| Total comprehensive income for the year | - | - | - | - | - | (8,481) | 54 | (12,193) | (20,620) | 438 | (20,182) |
| 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 | - | - | - | - | (125) | - | - | 125 | - | - | - |
| At 31 December 2020 | 107,400 | 30,604 | (8,668) | 4,974 | 80,015 | 11,597 | (299) | 75,971 | 301,594 | 2,258 | 303,852 |

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Revenue

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|--|-----------------------|----------------------|
| Revenue from manufacture of metal-cutting machines, components and details | 32,834 | 25,393 |
| Revenue from cargo transportation under voyage charter contracts | 41,606 | 19,991 |
| Revenue from time-charter contracts | 27,649 | 11,355 |
| Revenue from repair and reconstruction of ships | 11,389 | 12,121 |
| Revenue from manufacture of metal structures | - | 156 |
| Revenue from designer's services | 2,545 | 3,338 |
| Revenue from cargo processing | 8,690 | 8,759 |
| Revenue from cargo storage | 1,283 | 1,390 |
| Quay rentals | 682 | 1,257 |
| Property rentals | 2,055 | 2,138 |
| Revenue from other services | 2,002 | 2,954 |
| | <u>130,735</u> | <u>88,852</u> |

The Group's total revenue for 2021 has increased considerably compared to the revenue reported for 2020. Their dynamics are primarily due to:

- Ship charter revenue is increasing thanks to a significant increase in freight levels that have reached their highest levels in 10 years. The depreciation, on the average, of the US dollar in 2021 compared to 2020 has had an opposite effect thereon;
- The volume of revenue from sales of metal-cutting machines, components and spare parts increases as a result of the recovery of investment activity observed worldwide;
- Revenue from ship repairs in 2021 is decreasing due to the adverse effects of the high freight market, as a result of which the ship owners has postponed the scheduled repairs as much as possible;
- The decrease in revenue from design services is mainly due to the low levels of orders for new shipbuilding, supported by high freight levels and uncertainties about the fuels that ships will be able to use in the future;
- Revenue from other services in 2020 includes revenue from a one-time service of loading of specific ship equipment in the shipbuilding and ship repair sector.

Other operating income

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Income from financing | 3,592 | 3,012 |
| Gain on sale of fixed assets and assets classified as held for sale | 149 | 812 |
| Gain on sale of materials and scrap | 1,227 | 638 |
| Proceeds from insurance indemnities | 12 | 460 |
| Provisions reversed | - | 119 |
| Gain on revaluation of investment property | - | 29 |
| Impairment reversed | 17 | - |
| Other income | 319 | 333 |
| | <u>5,316</u> | <u>5,403</u> |

Income from financing of BGN 2,612 thousand reported as at 31 December 2021 include income of BGN 3,265 thousand (01 January 2020 – 31 December 2020: BGN 2,903 thousand) received under the Employment Protection Program of the Employment Agency aimed to support businesses and reduce negative impact of COVID-19.

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Costs of materials

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|---------------------|------------------------|------------------------|
| Main materials | (14,471) | (10,720) |
| Fuel used un ships | (7,491) | (9,067) |
| Electric power | (2,729) | (1,578) |
| Auxiliary materials | (2,683) | (2,656) |
| Spare parts | (1,745) | (2,215) |
| Other materials | (670) | (654) |
| | <u>(29,789)</u> | <u>(26,890)</u> |

The decrease in fuel consumption in the operation of ships during 2021 is a result of the Group being operating one ship less compared to 2020. Costs of electricity have increased significantly due to the sharp rise in the price of this energy source despite of the positive effect of the solar parks put in operation by two of the subsidiaries.

Costs of hired services

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|--------------------------------------|------------------------|------------------------|
| Port-related expenses | (8,237) | (4,614) |
| Services of subcontractors | (5,109) | (5,516) |
| Insurances | (1,316) | (1,414) |
| Agency services | (1,050) | (631) |
| Security | (894) | (829) |
| Repairs | (855) | (915) |
| Software maintenance on subscription | (417) | (425) |
| Civil contracts | (341) | (442) |
| Legal services | (204) | (409) |
| Other services | (2,061) | (2,266) |
| | <u>(20,484)</u> | <u>(17,461)</u> |

Port costs in 2021 have increased due to the to the different price levels of services applied by the loading and unloading ports, as well as the different routes of ships compared to 2020.

Costs of personnel

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|--|------------------------|------------------------|
| Salaries | (22,820) | (22,222) |
| Compulsory social insurance | (3,616) | (3,337) |
| Management contracts | (1,731) | (1,508) |
| Compulsory social and health insurance on management contracts | (108) | (112) |
| Unused leave accruals | (250) | 118 |
| Accruals under IAS 19 – retirement benefits | (63) | (64) |
| Other personnel costs | (990) | (991) |
| | <u>(29,578)</u> | <u>(28,116)</u> |

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Other operating expenses

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|---|-----------------------|------------------------|
| Notarial, judicial and other fees | (810) | (114) |
| Business trips and replacement of crew | (686) | (707) |
| Local taxes and charges, tax on expenses, and VAT | (695) | (697) |
| Impairment | (569) | (8,833) |
| Scrap and retirement of fixed tangible assets | (403) | (130) |
| Provisions accrued | 235 | (171) |
| Out-of-court settlement expenses | - | (3,745) |
| Other expenses | (478) | (831) |
| | <u>(3,406)</u> | <u>(15,228)</u> |

Notarial, judicial and other fees of BGN 735 thousand were reported in 2021 in connection with a claim of a Group company filed before the London Arbitration Court for non-compliance by a client with its payment commitments.

In 2020, out-of-court settlement expenses include amounts paid to settle a claim for improperly delivered cargo by one of the Group's ships and compensation for occupational accident involving an employee of the Group.

An impairment loss of BGN 8,676 thousand on fixed assets (ships) of the Maritime Transport segment had been reported over the period from January 2020 to December 2020.

Finance income and finance costs for the reporting period:

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|------------------------------|---------------------|-----------------------|
| Finance income | | |
| Foreign currency gains, net | 5,272 | - |
| Other finance income | 4 | - |
| | <u>5,276</u> | <u>-</u> |
| Finance costs | | |
| Interest expenses | (824) | (1,380) |
| Foreign currency losses, net | - | (2,208) |
| Other finance costs | (162) | (168) |
| | <u>(986)</u> | <u>(3,756)</u> |

Foreign currency differences of BGN 2,837 thousand arising from the completed liquidation of Emona Ltd. upon conversion of assets and liabilities of the company reported as a component of other comprehensive income have been reclassified in the income statement for 2021.

Interest expenses

| <i>In BGN'000</i> | <u>2021</u> | <u>2020</u> |
|---|---------------------|-----------------------|
| Interest expenses on bank loans received | (385) | (728) |
| Interest expenses on loans from related parties | (32) | (210) |
| Interest expenses on interest rate swap | (383) | (410) |
| Interest expenses on lease liabilities | (24) | (32) |
| | <u>(824)</u> | <u>(1,380)</u> |

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Bank loans

Long-term

| <i>In BGN'000</i> | Currency | Interest rate, % | Maturity | 2021 | 2020 |
|---|-----------------|-------------------------|-----------------|--------------|---------------|
| Contract for the provision of a credit limit for issuance of bank guarantees and working capital financing number 319 of 30 November 2006 | BGN | 1 M EURIBOR +1.6% | 2022 | - | 1,561 |
| Syndicated bank loan agreement of 20 December 2011 – long-term portion | USD | 1 M LIBOR + 1.59% | 2022 | - | 9,972 |
| Bank loan agreement number 16 of 27 March 2018 - long-term portion | EUR | 1.9% | 2023 | 326 | 5,215 |
| Bank loan agreement number 19F-002296 of 08 October 2019 - long-term portion | EUR | 1.6% | 2026 | 677 | 862 |
| | | | | 1,003 | 17,610 |

Short-term

| <i>In BGN'000</i> | Currency | Interest rate, % | Maturity | 2021 | 2020 |
|---|-----------------|-------------------------|-----------------|--------------|---------------|
| Syndicated bank loan agreement of 20 December 2011 – short-term portion | USD | 1 M LIBOR + 1.59% | 2022 | - | 7,353 |
| Bank loan agreement number 16 of 27 March 2018 - short-term portion | EUR | 1.9% | 2023 | 3,588 | 3,917 |
| Bank loan agreement number 19F-002296 of 08 October 2019 - short-term portion | EUR | 1.6% | 2026 | 186 | 186 |
| | | | | 3,774 | 11,456 |

In March 2021, the Group renegotiated the terms and conditions of a Syndicated bank loan of 20 December 2011, as six of the instalments due for 2021 had been deferred and transferred to the last repayment instalment the fixed interest margin was increased from 1.5% to 1.59%. The nominal contingent principal of the interest rate swap transaction concluded for the purpose of hedging the interest rate on this loan had been changes and the fixed interest rate on the swap was reduced from 2.60% to 2.07%. In October, the Group's liabilities under the Syndicated bank loan of 20 December 2011 and the associated interest rate swap were early and fully repaid thanks to the increased revenue of the ship companies.

In November 2020, the Group signed a framework agreement number 48272 of 24 November 2020 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 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 of this limit, which was repaid early and fully in October 2021.

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 2021 of BGN 80,049 thousand (31 December 2020: BGN 216,325 thousand). In addition, KRZ Port Bourgas AD has been pledged as an entity.

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At 31 December 2021, there were no liabilities on bank loans from related parties (2020: BGN 17,325 thousand). These loans were fully and early repaid in October 2021.

At 31 December 2021, the Group's unutilised limits in the form of a credit line for working capital financing under bank loans concluded amounted to BGN 5,500 thousand pursuant to Contract 319 dated 30 November 2006.

In February 2022, Industrial Holding Bulgaria AD signed a bank loan agreement in order to provide loan funds for investments to a subsidiary in the amount of EUR 10,000 thousand. The loan matures in February 2028, with a 12-month term of utilization, and is to be repaid in equal repayment instalments as of March 2023. A fixed interest rate of 1.4% per annum has been agreed. Guarantors under the contract are subsidiaries. The contract will be secured by mortgages on real estate (land and buildings) of a subsidiary.

Equity

Share capital - registered

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

| <i>In BGN'000</i> | 31 December 2021 | 31 December 2020 |
|---|-----------------------------|-----------------------------|
| 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.

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. The registration with the Commercial Register is pending the expiry of the statutory deadlines.

Shareholders

The shareholders of Industrial Holding Bulgaria PLC holding 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 (redeemed treasury shares ongoing invalidation action) | 10,592,226 | 9.86% |
| Others | <u>21,976,989</u> | <u>20.47%</u> |
| | <u>107,400,643</u> | <u>100.00%</u> |

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

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 shares for the total amount of BGN 1,512 thousand were bought up. The number of the treasury shares redeemed as at 31 December 2021 is 10,592,226 shares of BGN 10,180 thousand.

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By decision of the General Meeting of Shareholders of Industrial Holding Bulgaria PLC of 18 November 2021, the then effective procedure for buying back treasury shares was terminated. At the same time, a new procedure was initiated with the following parameters:

- Number of shares to be redeemed each year 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 amount of the purchase price - BGN 1.00 per share;
- Maximum amount of the purchase price - BGN 3.00 per share.

Related party disclosure under IAS 24

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

| | Country of registration | Equity interest | |
|---|-------------------------|------------------|------------------|
| | | 31 December 2021 | 31 December 2020 |
| | | % | % |
| Industrial Holding Bulgaria PLC | Bulgaria | Parent company | Parent company |
| Privat Engineering EAD | Bulgaria | 100.00 | 100.00 |
| ZMM Bulgaria Holding EAD | 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 EAD | Bulgaria | 100.00 | 100.00 |
| IHB Electric AD (obliterated from the Register) | Bulgaria | - | 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 (obliterated from the Register) | Marshal Islands | - | 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 (in liquidation) | Bulgaria | 51.00 | 51.00 |

On 22 January 2021 the General Meeting of Shareholders of IHB Electric AD (obliterated from the Register) approved the results of the distribution of the company's property after the completion of the liquidation process and preparation of the closing liquidation balance sheet as of 30 November 2020, and took a decision to obliterate it from the Register. On 02 February 2021, the name of the company was obliterated from the Commercial Register at the Registry Agency.

The name of Emona Ltd was obliterated from the Companies Register of the Marshal Islands on 31 May 2021, following the sale of the main asset of the company at the end of 2020, namely m / v Emona.

In November 2021, the General Meeting of Shareholders of IHB 3 Design AD took a decision to discontinue the operations of the company and to announce it in liquidation. The term of liquidation is 6 months as of 17 January 2022.

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The Groups deems that it 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

Related party transactions

Trade and other receivables from related parties

In BGN'000

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

| <u>2021</u> | <u>2020</u> |
|-------------|-------------|
| 7 | 5 |
| <u>7</u> | <u>5</u> |

Cash with banks – related parties

In BGN'000

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

| <u>2021</u> | <u>2020</u> |
|---------------|--------------|
| 12,612 | 4,489 |
| <u>12,612</u> | <u>4,489</u> |

Interest-bearing loans and borrowings from banks – related parties

In BGN'000

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

| <u>2021</u> | <u>2020</u> |
|-------------|---------------|
| - | 17,325 |
| <u>-</u> | <u>17,325</u> |

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Loans from related parties (including interest)

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|----------------------------|-------------|--------------|
| Persons exercising control | 157 | 5,004 |
| | <u>157</u> | <u>5,004</u> |
| Long-term portion | - | 2,437 |
| Short-term portion | 157 | 2,567 |
| Principal | 157 | 4,989 |
| Interest | - | 15 |

Trade and other payables to related parties

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|---|-------------|-------------|
| Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel | 9 | 9 |
| | <u>9</u> | <u>9</u> |

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

In BGN'000

| | <u>2021</u> | <u>2020</u> |
|---|-------------|-------------|
| Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel | - | 405 |
| | <u>-</u> | <u>405</u> |

Interest expenses accrued over 2021 under an interest rate swap contract with a bank - related party amount to BGN 383 thousand (2020: BGN 410 thousand), and interest paid amounts to BGN 460 thousand (2020: BGN 352 thousand).

Sales transactions

In BGN'000

| | <u>Transaction type</u> | <u>2021</u> | <u>2020</u> |
|---|------------------------------|--------------|-------------|
| Persons exercising control | Rental income | 1 | 1 |
| | | <u>1</u> | <u>1</u> |
| Entities under common control of the persons exercising control | Sale of assets held for sale | - | 831 |
| | Sales of services | - | 9 |
| | Rental income | 5 | 11 |
| | Other sales | 1 | 12 |
| | | <u>6</u> | <u>863</u> |
| Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel | Sales of services | 51 | 48 |
| | Rental income | 88 | 83 |
| | Other sales | 6 | 3 |
| | Insurance indemnities | - | 458 |
| | | <u>145</u> | <u>592</u> |
| | <u>152</u> | <u>1,456</u> | |

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Purchase transactions

In BGN'000

| | Transaction type | 2021 | 2020 |
|---|----------------------------|-------------|-------------|
| Entities under common control of the persons exercising control | Purchase of materials | - | 3 |
| | Purchase of hired services | - | 3 |
| | | - | 6 |
| Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel | Purchase of hired services | 627 | 766 |
| | Other finance costs | 124 | 123 |
| | | 751 | 889 |
| | | <u>751</u> | <u>895</u> |

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

In BGN'000

| | | Amounts received / (provided) | Amounts (paid)/ refunded | Interest (expenses)/ income | Interest paid |
|---|-------------|--------------------------------------|---------------------------------|------------------------------------|----------------------|
| Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel | 2021 | 3,217 | (21,411) | (227) | (251) |
| Entities, over which the persons that have control exercise also significant influence or are members of their key management personnel | 2020 | - | (6,348) | (484) | (528) |
| | 2021 | <u>3,217</u> | <u>(21,411)</u> | <u>(227)</u> | <u>(251)</u> |
| | 2020 | <u>-</u> | <u>(6,348)</u> | <u>(484)</u> | <u>(528)</u> |

Movements of loans from related parties

In BGN'000

| | | Amounts received / (provided) | Amounts (paid)/ refunded | Interest (expenses)/ income | Interest paid |
|---|-------------|--------------------------------------|---------------------------------|------------------------------------|----------------------|
| Persons exercising control | 2021 | - | (4,861) | (32) | (40) |
| Entities under common control of the persons exercising control | 2021 | - | - | - | - |
| Persons exercising control | 2020 | 3,319 | (8,800) | (209) | (211) |
| Entities under common control of the persons exercising control | 2020 | 1,704 | (1,202) | (1) | (1) |
| | 2021 | <u>-</u> | <u>(4,861)</u> | <u>(32)</u> | <u>(40)</u> |
| | 2020 | <u>5,023</u> | <u>(10,002)</u> | <u>(210)</u> | <u>(212)</u> |

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 2021 (31 December 2020: Nil), the Group had not written down related party receivables. A review for impairment is made every financial year through examining the financial position of the related party and the market in which the related party operates.

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Commitments and contingencies

Legal claims

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 a decision.

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 31 December 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);
- no letters of credit were issued (31 December 2020: BGN 264 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, no amounts were utilised by the Holding and/or by subsidiaries.

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.

Collateral

In November 2020, in connection with Framework agreement to provide a revolving credit limit for loans number 48272 of 24 November 2020, 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 the amount of the loan liability for the time being.

In 2019, in connection with Bank loan contract number 19F-002296 of 08 October 2019 received for the purpose of financing the construction of a photovoltaic power plant, the company-borrower under the loan signed a financial collateral agreement through a pledge of receivables over all its accounts with the bank-creditor in the amount of the loan liability for the time being. In 2020, the company-co-borrower under the loan also signed a financial collateral agreement.

In 2018, in connection with Bank loan contract number 16 of 27 March 2018 concluded for the purpose to finance partially 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 the amount of the loan liability for the time being.

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Non-systematic Group specific risks

Risks associated with the holding structure and the structure of the Group's portfolio

The Group's investments are focused on businesses 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.

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. Possible extension / reduction of restrictive measures in individual countries are risks that can lead to both improvement and deterioration of the external environment.

The high incidence of COVID-19 in Bulgaria at the moment and yet the low rate of vaccinated people create a number of difficulties in the implementation of the main business processes of the Holding and its subsidiaries. On the other hand, the fact that Bulgaria remains in the red COVID zone has a negative impact on trading partners of the companies.

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:

- cyclicity of the shipping industry – cycles are linked to the global economy and the balance between the proposed shipping tonnage and the needs of exporters and importers. Risk exists for operators who have failed to properly plan and distribute their cash flows at a time of difficult access to finance under aggravated conditions during crisis;
- number of ships in construction and entry into service and state of the ship cutting market
- 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.

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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 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 segment by reducing sales volumes on traditional markets. The military conflict between Russia and Ukraine, depending on the reaction of the world's leading political forces, will have a negative impact on both sales and supplies to most segments of the Group.

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. 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 and ship repair. Maritime transport is highly dependent on the prices of fuels. 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 and in 2022 as well, the level of this risk has been high. Gas, electricity and heat prices have already risen sharply across Europe.

Additional inflationary pressure is being exerted by the many monetary incentives introduced worldwide by countries to deal with the effects of the pandemic. The broken supply chains due to COVID-19 also affect the growth of international prices of raw materials and goods, which fuels inflation at a rapid pace and everyone faces serious challenges.

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.

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 fuelled by the long-standing lack of focus on secondary vocational education. The lasting trend of declining and aging population in our country reduces people of working age. 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. 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.

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Credit risk

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

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

The war between Russia and Ukraine and the related responses of other countries increase the credit risk worldwide and for the Group in particular. 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.

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 one currently effective. The Group is 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 the future.

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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 results price levels have risen. 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 low levels. The impact of the serious rise in the prices of steel, fuels and the ever-increasing environmental requirements towards new ships is similar. 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. There is no clarity as regards the concept of environmentally friendly marine fuel and at the same time, effective new fuel in view of the new regulations.

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.

The Group's ships sail with Bulgarian crews, the recruitment of which is a 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 recover. 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, strengthened by the highly depreciated Turkish lira. As a result, the shipyard reported a decline in the revenue earned in 2021 compared to those reported in 2020. The industry was also negatively affected by the sharp jump in the prices of materials and especially of energy resources.

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Shrinking possibilities of postponing mandatory repairs and the downturn in the freight market have increased demand for ship repairs at the end of 2021. From the beginning of 2022 orders increased significantly thus engaging the production capacity of the company for the coming months, which boosted expectations for a better new year in terms of volume and revenue. However, the development of the military conflict between Russia and Ukraine could reduce cargo in the Black Sea and impair the attractiveness of ships to carry out repair works in the Black Sea basin.

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 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 stimulate the demand for design services.

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 company completed the supervision of the construction of the new tourist catamaran for passenger transport ordered by the Burgas municipality. The Register 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 to 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

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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.

The recovery of these metal 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. In addition, the military conflict between Russia and Ukraine, as well as the political reaction of Europe, will have a negative impact mainly on this type of cargo.

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 to be able to grab any 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 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. 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 had been observed.

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 the prices of machines being manufactured.

The development of the pandemic in 2022 and the restrictions imposed locally to preserve the health of the teams on the spot will continue to have a negative effect. In addition, the military conflict between Russia and Ukraine, as well as the political reaction of Europe, will have a negative impact on both sales and supplies.

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.

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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 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

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Commercial Register and the Register of Non-profit Legal Entities and its registration is pending after the expiration on 25 February 2022 of the 3-month statutory period for creditors prescribed by the Commercial Act, which is a precondition for entering the capital decrease in the Commercial Register.

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 06 January 2022, Industrial Holding Bulgaria PLC acquired from International Industrial Holding Bulgaria AG 100 shares of the capital of ZMM Bulgaria Holding AD. As a result of the transaction, Industrial Holding Bulgaria PLC is currently the sole equity owner of the company.

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.

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

N/A

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

Daneta Zheleva
Chief Executive Officer
Industrial Holding Bulgaria PLC

Ivan Rashkov
Chief Accountant

Vladislava Zgureva
Investors Relations Director