



INDUSTRIAL HOLDING BULGARIA

INDUSTRIAL HOLDING BULGARIA PLC

**PUBLIC NOTIFICATION FOR FINANCIAL POSITION
ON A CONSOLIDATED BASIS**

31 MARCH 2023

CORPORATE INFORMATION

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

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

The General Meeting of Shareholders held on 27 February 1998 passed a decision to reorganize the activities of Privatisation Fund Bulgaria PLC into a holding company and to rename it from Privatisation Fund Bulgaria PLC to Industrial Holding Bulgaria PLC. The Company has a capital of BGN 96,808,417. The company has a two-tier system of governance, comprising Supervisory Board and Management Board.

As at 31 March 2023, Industrial Holding Bulgaria PLC has 9 direct subsidiaries (31 December 2022: 9), 11 indirect subsidiaries (31 December 2022: 11), and 1 indirect associate (31 December 2022: Nil), collectively referred to as “the Group”.

The scope of business 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.

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.

CONSOLIDATED INCOME STATEMENT

In BGN'000	31 March 2023	31 March 2022
Revenue	32,869	31,247
Other operating income	646	1,177
	33,515	32,424
Change in stock of work in progress and finished products	455	1,845
Costs of acquisition and development of assets' self-construction	14	455
Costs of materials	(8,960)	(9,672)
Costs of hired services	(6,617)	(4,468)
Depreciation / amortization expenses	(3,422)	(3,327)
Costs of personnel	(8,808)	(7,475)
Other operating expenses	(474)	(699)
Operating profit	5,703	9,083
Finance income	287	867
Finance costs	(879)	(69)
Profit before tax	5,111	9,881
Income tax expense	(467)	(246)
Profit for the year	4,644	9,635
Attributable to:		
Equity holders of the parent	4,518	9,530
Non-controlling interest	126	105

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Към 31 March 2023 г.

In BGN'000	31 March 2023	31 December 2022
Assets		
Non-current assets		
Property, plant and equipment	319,017	320,979
Intangible assets	2,528	2,341
Goodwill	4,329	4,329
Investment properties	14,201	14,059
Right-of-use assets	2,457	76
Deferred tax assets	46	47
Trade and other receivables	33	24
Total non-current assets	342,611	341,855
Current assets		
Inventories	21,289	21,736
Trade and other receivables	11,758	11,229
Contract assets	1,800	1,444
Income tax receivable	28	56
Cash and cash equivalents	48,773	45,374
Total current assets	83,648	79,839
Assets classified as held for sale	1	1
TOTAL ASSETS	426,260	421,695

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As of 31 March 2023

In BGN'000	31 March 2023	31 December 2022
Equity		
Share capital	96,808	96,808
Share premium	31,016	31,016
Other reserves	84,815	84,815
Reserve from foreign exchange translation of foreign operations	22,160	24,607
Retained earnings	147,094	142,576
Equity attributable to the equity owners of the parent company	381,893	379,822
Non-controlling interest	1,366	1,405
Total equity	383,259	381,227
Liabilities		
Non-current liabilities		
Interest-bearing loans	10,561	5,575
Loans from related parties	591	591
Lease liabilities	2,239	-
Trade and other payables	147	109
Government financing	1,129	1,156
Retirement benefit liabilities	947	1,025
Deferred tax liabilities	11,267	11,063
Total non-current liabilities	26,881	19,519
Current liabilities		
Interest-bearing loans	516	3,455
Loans from related parties	165	160
Lease liabilities	232	77
Trade and other payables	11,641	13,135
Contract liabilities	3,145	3,938
Provisions	10	10
Government financing	107	107
Income tax liabilities	304	67
Total current liabilities	16,120	20,949
Total liabilities	43,001	40,468
TOTAL EQUITY AND LIABILITIES	426,260	421,695

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 March 2023

In BGN'000	31 March 2023	31 March 2022
Operating activity		
Proceeds from customers	32,861	32,388
Payments to suppliers	(18,708)	(15,651)
Staff remuneration related payments	(9,005)	(7,412)
Income taxes paid	(1)	-
Other taxes refunded /(paid), net	1,634	665
Foreign currency differences	(797)	227
Government financing received	-	399
Other proceeds / (payments), net	(457)	(521)
Net cash flows from operating activity	5,527	10,095
Investing activity		
Payments on the acquisition of fixed assets and self-constructed fixed assets	(4,142)	(2,320)
Proceeds from sale of property, plant and equipment	10	110
Net cash flow used in investing activities	(4,132)	(2,210)
Financing activities		
Proceeds from loans	2,093	978
Payments on loans	(46)	(698)
Payments on lease liabilities	(89)	(82)
Dividends paid	(114)	(198)
Interest paid on loans	(35)	(21)
Interest paid on lease contracts	(7)	(1)
Fees and commissions paid on loans	(4)	(2)
Proceeds from bank deposits	279	-
Other proceeds / (payments), net	(25)	(47)
Net cash flow used in financing activities	2,052	(71)
Net increase in cash and cash equivalents	3,447	7,814
Cash and cash equivalents at 1 January	45,354	14,857
FX translation effects	(28)	34
Cash and cash equivalents at 31 March	48,773	22,705

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2023

In BGN'000	Attributable to equity holders of the parent										Total	Non-controlling interest	Total equity
	Share capital	Reduction of share capital in process of registration	Treasury shares redeemed	Share premium	Statutory and additional reserves	Revaluation reserve	Reserve from FX translation of foreign operations	Cash flow hedge reserve	Retained earnings				
At 1 January 2023	96,808	-	-	31,016	4,957	79,858	24,607	-	142,576	379,822	1,405	381,227	
<i>Comprehensive income for the period</i>													
Profit for the period	-	-	-	-	-	-	-	-	4,518	4,518	126	4,644	
Other comprehensive income for the period	-	-	-	-	-	-	(2,447)	-	-	(2,447)	-	(2,447)	
<i>Total comprehensive income for the period</i>	-	-	-	-	-	-	(2,447)	-	4,518	2,071	126	2,197	
Transactions with shareholders recognised in equity													
Distributed dividends	-	-	-	-	-	-	-	-	-	-	(165)	(165)	
Total transactions with shareholders	-	-	-	-	-	-	-	-	-	-	(165)	(165)	
At 31 March 2023	96,808	-	-	31,016	4,957	79,858	22,160	-	147,094	381,893	1,366	383,259	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2023

In BGN'000	Attributable to equity holders of the parent											Non-controlling interest	Total equity
	Share capital	Reduction of share capital in process of registration	Treasury shares redeemed	Share premium	Statutory and additional reserves	Revaluation reserve	Reserve from FX translation of foreign operations	Cash flow hedge reserve	Retained earnings	Total			
At 1 January 2022	107,400	(10,592)	-	31,016	5,124	79,824	16,409	-	118,735	347,916	2,229	350,145	
<i>Comprehensive income for the period</i>													
Profit for the period	-	-	-	-	-	-	-	-	9,530	9,530	105	9,635	
Other comprehensive income for the period	-	-	-	-	-	-	2,124	-	-	2,124	-	2,124	
<i>Total comprehensive income for the period</i>	-	-	-	-	-	-	2,124	-	9,530	11,654	105	11,759	
Transactions with shareholders recognised in equity													
Distributed dividends	-	-	-	-	-	-	-	-	-	-	(361)	(361)	
Acquisition of shareholding	-	-	-	-	163	109	-	-	120	392	(392)	-	
Registration of capital reduction	(10,592)	10,592	-	-	-	-	-	-	-	-	-	-	
<i>Total transactions with shareholders</i>	(10,592)	10,592	-	-	163	109	-	-	120	392	(753)	(361)	
Transfer of revaluation reserve to retained earnings	-	-	-	-	-	(38)	-	-	38	-	-	-	
At 31 March 2022	96,808	-	-	31,016	5,287	79,895	18,533	-	128,423	359,962	1,581	361,543	

NOTES

1. REVENUE

In BGN'000	31 March 2023	31 March 2022
Revenue from manufacture of metal-cutting machines, components and details	10,497	7,324
Revenue from cargo transportation under voyage charter contracts	1,847	10,157
Revenue from time-charter contracts	6,123	5,525
Revenue from repair and reconstruction of ships	9,572	3,552
Revenue from designer's services	1,026	761
Revenue from cargo processing	2,047	2,271
Revenue from cargo storage	311	408
Quay rentals	257	170
Property rentals	548	526
Revenue from other services	641	553
	32,869	31,247

The Group's 2022 total revenue realized in the first quarter of 2023 has increased compared to the revenue reported for the same period of 2022. Their dynamics are primarily due to the following:

- Revenue from ship repairs is increasing thanks to the cumulative effect of the freight market slowing down and the higher number of orders for ballast systems due to the expiry of the statutory deadline for their installation;
- Revenue from sales of metal-cutting machines, components, and details increases as a result of an increase in the share of heavier and longer machines in the sales;
- Revenue from ship charter was impacted adversely by the decrease in the freight rates vs. the comparative period.

In BGN'000	31 March 2023	31 March 2022
Income from government financing	184	726
Gain on sale of fixed assets and assets classified as held for sale	-	97
Gain on sales of materials and scrap	410	307
Other income	52	47
	646	1,177

2. COSTS OF MATERIALS

In BGN'000	31 March 2023	31 March 2022
Main materials	(5,765)	(4,721)
Fuel used on ships	(526)	(2,224)
Electric power	(1,014)	(1,404)
Auxiliary materials	(992)	(882)
Spare parts	(473)	(305)
Other materials	(190)	(136)
	(8,960)	(9,672)

According to its accounting policy, the Group recognises the government grants received to compensate the rise in electricity prices as income from financing and does not recognise the costs of electricity offset.

3. COSTS OF HIRED SERVICES

In BGN'000	31 March 2023	31 March 2022
Port-related expenses	(458)	(1,594)
Services of subcontractors	(4,116)	(1,125)
Insurances	(446)	(383)
Agency services	(172)	(205)
Security	(228)	(201)
Repair services	(228)	(177)
Software maintenance on subscription	(182)	(157)
Civil contracts	(78)	(66)
Other costs	(709)	(560)
	(6,617)	(4,468)

Costs of services of subcontractors during the first quarter of 2023 grew primarily due to the higher loading of the Shipbuilding and Ship repair segment vs. the comparative period.

4. EMPLOYEE BENEFIT EXPENSES

In BGN'000	31 March 2023	31 March 2022
Salaries	(6,935)	(5,862)
Compulsory social insurance	(1,045)	(921)
Management contracts	(405)	(404)
Compulsory social and health insurance on management contracts	(28)	(27)
Other personnel costs	(395)	(261)
	(8,808)	(7,475)

5. OTHER OPERATING EXPENSES

In BGN'000	31 March 2023	31 March 2022
Litigation costs, notarial and other fees	(8)	(243)
Local taxes and charges, tax on expenses	(145)	(138)
Business trip and crew replacement expenses	(248)	(150)
Scrap and retirement of fixed tangible assets	(5)	(65)
Provisions accrued	-	105
Other expenses	(68)	(208)
	(474)	(699)

6. FINANCE INCOME AND FINANCE COSTS

In BGN'000	31 March 2023	31 March 2022
Foreign currency gains, net	-	859
Interest income	287	8
Finance income	287	867

in BGN'000	31 March 2023	31 March 2022
Interest expenses	(18)	(24)
Foreign currency losses, net	(827)	-
Other finance costs	(34)	(45)
Finance costs	(879)	(69)

Interest expenses

In BGN'000	31 March 2023	31 March 2023
Interest expenses on bank loans received	(3)	(20)
Interest expenses on loans from related parties	(6)	(3)
Interest expenses on lease liabilities	(9)	(1)
	(18)	(24)

Interest on bank loans in the amount of BGN 31 thousand was capitalized to the value of the assets of the Port Operations segment in the first quarter of 2023 (the first quarter of 2022: Nil).

7. CASH AND CASH EQUIVALENTS

In BGN'000	31 March 2023	31 December 2022
Cash with banks-related parties	38,382	36,802
Cash with banks	10,123	8,277
Cash on hand	268	275
Cash and cash equivalents presented in the Consolidated Statement of Cash Flows	48,773	45,354
Cash restricted as collateral on bank loans	-	20
Cash and cash equivalents presented in the Consolidated Statement of Financial Position	48,773	45,374

Cash denominated in BGN is measured at its nominal value and those denominated in foreign currency – at the closing exchange rate of BNB at the end of the reporting period. Foreign exchange differences are reported as current income and respectively, expenses. Aiming at managing cash available and earning revenue from it, the Company concluded short-term deposits (within 3 months).

8. BANK LOANS

Long-term

In BGN'000	Currency	Interest rate, %	Maturity	31 March 2023	31 December 2022
Bank loan contract number 22F-000155 of 24 February 2022	EUR	1.40%	2029	10,115	5,083
Bank loan contract number 19F-002296 of 8 October 2019	EUR	1.60%	2026	446	492
				10,561	5,575

Short-term

In BGN'000	Currency	Interest rate, %	Maturity	31 March 2023	31 December 2022
Bank loan contract number 22F-000155 of 24 February 2022	EUR	1.40%	2029	331	3,270
Bank loan contract number 19F-002296 of 8 October 2019	EUR	1.60%	2026	185	185
				516	3,455

In BGN'000	31 March 2023	31 December 2022
Principal payable	11,073	9,026
Interest payable	4	4
	11,077	9,030

In January 2023, an annex to Bank Loan Contract No. 22F-000155, concluded for the purpose to finance investments in a project for the extension of one of the ports in the amount of EUR 10,000 thousand, was signed. By means of the annex, the term of loan utilisation was changed until February 2024, the deadline for loan repayment until February 2029, and the date of the first instalment payment until 20 March 2024, respectively.

Under Bank Loan Contract No. 22F-001225, a total limit for working capital financing, issuing of bank guarantees and opening of letters of credit was provided to the Holding and/or its Group companies in the amount of up to BGN 12,000 thousand. According to the new Contract, a variable interest rate has been agreed equal to (a) for EUR Loans: the 1M EURIBOR +1.2%, but not less than 1.2%; (b) for BGN loans – the reference interest rate of the financing bank + 1.2%, but not less than 1.2%. The Contract is secured by mortgages on the real estate of a Group company, which is also a guarantor under the Contract. The utilised limit under the Contract amounted to BGN 5,822 thousand as of 31 March 2023 (Note 13).

9. EQUITY

Share capital - registered

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

In BGN'000	31 March 2023	31 December 2022
96,808,417 ordinary shares with a nominal value of BGN 1 each	96,808	96,808
	96,808	96,808

The capital of the parent company Industrial Holding PLC as of 31 March 2023 comprises 96,808,417 dematerialised registered voting shares with a nominal value of BGN 1 each, which are listed for trading on the Bulgarian Stock Exchange. The share capital is subscribed at its par and is fully paid-in. There is no preference shares and bearer's shares.

Shareholders of Industrial Holding Bulgaria PLC holding more than 5% share in the capital as of 31 March 2023:

In BGN'000	Number of shares as of 31 March 2023	31 March 2023
BULLS AD	65,853,988	68.03%
DZH AD	9,657,874	9.98%
Other legal entities and natural persons	21,296,555	21.99%
	96,808,417	100.00%

Treasury shares redeemed

By decision of the General Meeting of Shareholders of Industrial Holding Bulgaria PLC of 18 November 2021, a new treasury shares redemption 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.

The appointed investment intermediary is Allianz Bank Bulgaria AD.

Industrial Holding Bulgaria PLC held no treasury shares redeemed as of 31 March 2023.

10. RELATED PARTY DISCLOSURE UNDER IAS 24

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

	Country of registration	31 March 2023	31 December 2022
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	99.24%	99.24%
IHB Metal Castings EAD	Bulgaria	100.00%	100.00%
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%
CIMF I Black Sea JV Holdco B.V.	The Netherlands	20.00%	-
Maritime Holding AD	Bulgaria	61.00%	61.00%
Bulgarian Register of Shipping EAD	Bulgaria	61.00%	61.00%
Bullyard Shipbuilding Industry EAD	Bulgaria	100.00%	100.00%
IHB Shipping Co EAD	Bulgaria	100.00%	100.00%

Karvuna LTD	Marshal Islands	100.00%	100.00%
Odria LTD	Marshal Islands	100.00%	100.00%
Tirista LTD	Marshal Islands	100.00%	100.00%
Serdika LTD	Marshal Islands	100.00%	100.00%
Karia LTD	Marshal Islands	99.00%	99.00%
Bulport Logistics AD	Bulgaria	100.00%	100.00%
Odessos PBM EAD	Bulgaria	100.00%	100.00%
IHB Shipdesign AD	Bulgaria	70.00%	70.00%

In March 2023, International Industrial Holding Bulgaria AG, a subsidiary of Industrial Holding Bulgaria PLC, participated jointly in the incorporation of CIMF I Black Sea JV Holdco B.V. The company was registered in the Netherlands with capital of EUR 50 thousand to explore the opportunities of developing projects for the production of energy from renewable sources. The share of International Industrial Holding Bulgaria AG is 20%.

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

I. Persons exercising control within the meaning of IAS 24

- BULLS AD, a company that directly holds 68.03% of Industrial Holding Bulgaria PLC;
- Dimitar Zhelev, a person exercising control over Bulls AD and husband of Daneta Zheleva, the Chief Executive Officer of Industrial Holding Bulgaria PLC.

II. Entities under the common control of the persons exercising control (item I)

III. Entities, over which the persons that have control (item I) also exercise significant influence or are members of their key management staff

IV. Key management personnel, including the Management and Supervisory Boards

11. RELATED PARTY TRANSACTIONS

Trade and other receivables from related parties

In BGN'000	31 March 2023	31 December 2022
Entities under common control of persons exercising control	23	22
Entities, over which the persons exercising control have significant influence or are members of their key management staff	125	145
	148	167

Cash with banks – related parties

In BGN'000	31 March 2023	31 December 2022
Entities, over which the persons exercising control have significant influence or are members of their key management staff	38,382	36,802
	38,382	36,802

Loans from related parties (including interest)

In BGN'000	31 March 2023	31 December 2022
Persons exercising control	756	751
	756	751
Non-current portion of long-term loans	591	591
Current portion of long-term loans	165	160
Principal	748	748
Interest	8	3

Liabilities under lease contracts with related parties

In BGN'000	31 March 2023	31 December 2022
Entities under common control of persons exercising control	2,468	-
	2,468	-
Long-term portion	229	-
Short-term portion	2,239	-

The fee due under a lease contract concluded with an entity under the common control of the persons exercising control for the first quarter of 2023 amounts to BGN 37 thousand, while the cash outflow is BGN 22 thousand.

Trade and other payables to related parties

In BGN'000	31 March 2023	31 December 2022
Entities, over which the persons exercising control have significant influence or are members of their key management staff	9	9
	9	9

Purchase and sales transactions – related parties

In BGN'000		31 March 2023	31 March 2022
Revenue from contracts with customers			
	Entities, over which the persons exercising control have significant influence or are members of their key management staff	14	15
Rental income	Entities under common control of persons exercising control	-	1
	Entities, over which the persons exercising control have significant influence or are members of their key management staff	22	21
Other income	Entities, over which the persons exercising control have significant influence or are members of their key management staff	1	1
		37	38

In BGN'000		31 March 2023	31 March 2022
Costs of materials			
Costs of hired services			
	Entities, over which the persons exercising control have significant influence or are members of their key management staff	147	171
Other expenses			
Other finance costs			
	Entities, over which the persons exercising control have significant influence or are members of their key management staff	21	15
		168	186

Movements of loans related parties

In BGN'000		Amounts received / (provided)	Amounts (paid)/ refunded	Interest (expenses)/ income	Interest paid
Persons exercising control	31 March 2023	-	-	(6)	(1)
Persons exercising control	31 March 2022	978	-	(3)	(1)
	31 March 2023	-	-	(6)	(1)
	31 March 2022	978	-	(3)	(1)

12. 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. For the period ended 31 March 2023 (31 December 2022: 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.

13. COMMITMENTS AND CONTINGENCIES

13.1. LEGAL CLAIMS

There are no significant legal claims brought against the Group.

13.2. GUARANTEES

According to Bank Loan Contract 22F-001225 for granting a total limit for working capital financing, issuance of bank guarantees and letters of credit in the amount of up to BGN 12,000 thousand as of 31 March 2023:

- A guarantee was issued to cover a liability of a Group company, namely KRZ Port Burgas, in the amount of BGN 6,000 thousand (31 December 2022: BGN 6,000 thousand);
- Bank guarantees were issued to Group companies, namely IHB Metal Castings AD in the amount of 20 thousand, ZMM Bulgaria Holding EAD in the amount of BGN 15 thousand, and ZMM Nova Zagora in the amount of BGN 143 thousand (31 December 2022: BGN 20 thousand).

The unutilised limit under Contract No. 22F-001225 amounted to BGN 5,822 thousand as of 31 March 2023.

13.3. COLLATERAL

In connection with Bank loan contract number 22F-001225 of 07 November 2022, obtained to provide a total limit for working capital financing, issuance of bank guarantees and letters of credit, Industrial Holding Bulgaria PLC and the company-guarantor concluded financial collateral agreements through a pledge of receivables granting the right of use of all their accounts with the creditor bank in the amount of the liability at the appropriate time.

In connection with Bank loan contract number 22F-000155 of 24 February 2022, obtained to secure loan funds for investments of a subsidiary, Industrial Holding Bulgaria PLC, the companies-guarantors and the company-co-debtor signed financial collateral agreements through a pledge of receivables providing for a right of use over all their accounts with the creditor bank in the amount of the liability at the appropriate time.

In connection with Bank loan contract number 19F-002296 of 8 October 2019, obtained to finance the construction of a photovoltaic power plant, the company-borrower under the loan and the company-co-debtor signed financial collateral agreements through a pledge of receivables on all their accounts with the creditor bank in the amount of the liability at the appropriate time.

The collateral described above is adequate until the date of full repayment of the loan obligations they secure and/or until the termination date of the revolving limits, as the case may be.

14. DESCRIPTION OF THE MAJOR RISKS AND UNCERTAINTIES FACED BY THE GROUP

Non-systematic risks specific to the Company

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

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 cyclicity (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 chains, 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, and that have an impact on the trade partners of the Group companies.

Risks arising from natural disasters

Like many other regions of the world, Bulgaria is exposed to almost all risks related to climate change. Natural disasters such as floods, earthquakes, etc., resulting from these risks can cause both loss of human life and large financial losses, significantly affecting economic stability and growth. The impact of such events can often go beyond the borders of the country in which they occur and threaten large-scale territories in neighbouring countries.

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 and other technical solutions to bring them in compliance with ecological regulations;
- 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 commodity in the industry and a stock commodity. Restrictions imposed by the European Union and the United States on Russia as a major global supplier of crude oil and gas are having a negative effect;

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

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, refugee flows. This risk impedes the free movement of goods and people, and leads to a change in trade flows and transport corridors; moreover, it 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 war in Ukraine has the most severe effect. It affects negatively both the sales and the supplies of the Group companies.

Risks associated with fraud and abuse

The changing environment in combination with the expanding use of new technologies have intensified the risk of fraud and abuse, including the risk related to cyber-attacks, unscrupulous trade practices, bankruptcies of contractors, etc. The COVID-19 pandemic and the conflict between Russia and Ukraine has a similar effect.

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 coal, 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.

It is a policy of the Group to comply with its 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, as well as investing in environmentally friendly technologies (related to RES, equipping own ships with ballast systems, reducing carbon emissions from the Group's fleet, etc.).

Risk related to basic commodities, materials and energy sources

This risk results from changes in the supplies and prices of raw materials, materials and various energy sources being used. Disrupted supplies result in rise in prices and it in turn, 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 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.

In 2022, the level of this risk intensified. The broken supply chains due to COVID-19, as well as to the war in Ukraine, affected the growth of international prices of commodities and goods and fueled inflation at a rapid pace. Despite the slowdown in price pressure in 2023 and the normalisation of the prices of energy sources, the effect cannot be transferred directly to end customers and affects the profitability of the products manufactured and the services offered by the Group.

Risks relating to attracting and retaining experienced and qualified employees

Many sectors of the national economy are experiencing a capacity crunch exacerbated by a long-standing lack of focus on secondary vocational education. The lasting trend of declining and aging population in our country naturally reduces people of working age. Employees' professional qualities affect directly entities' financial results and innovation performance. The risk is intensified by the

convertible nature of some professions and high worldwide demand for such staff, and by the withdrawal from the labour market of some of the skilled employees from Russia and Ukraine.

Management has adopted a long-term approach to human resource management related to preliminary and subsequent qualification of staff, a close cooperation with the academic society in the country, and seeking opportunities to attract foreign employees.

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, port activities, classification and certification.

The war in Ukraine and restrictions against Russia increase the level of 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.

Guarantees - It is a policy of the Group to issue financial guarantees only to Group companies 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. In case of need, the subsidiaries utilise funds from the credit limit agreed by IHB for opening of letters of credit and issuance of bank guarantees to trade contractors.

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. 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 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 fixed one. 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. The inflation growth in 2022 has led to a change in Central Banks' policies to increase interest rates and tighter fiscal conditions, a trend that continues in 2023 as well.

Systematic risks

The Holding and its subsidiaries are exposed to systematic risks relating to the market and macro-environment in which the companies operate. The risk arising out of the military conflict between Russia and Ukraine is high. These risks cannot be managed and controlled by the management team.

15. TRENDS FOR BUSINESSES, IN WHICH THE GROUP COMPANIES OPERATE

Maritime transport

In the first quarter of 2023, the shipping market continued to decline due to reduced tonnage demand and lower freight rates compared to 2022 as a result of disruptions caused by the war in Ukraine, global sanctions against Russia and the growing standoff between China and the West. Because of the continuing uncertainty fuelled by rising interest rates, the cutting of old vessels and reduction of tonnage in operation runs at a slow pace and volume. These factors had a negative impact on orders for new bulk vessels, which remained at low levels. The impact of the high prices of steel, fuels and the ever-increasing environmental requirements towards new ships is similar. Climate issues and the decision to reduce the use of coal as an energy source are shrinking demand for tonnage. There is no foreseeable horizon in which the owners of the new vessels will be able to operate them without making additional costs for bringing them in compliance with regulatory changes and without restrictions. The concept of environmentally friendly marine fuel and at the same time, effective ship fuel, in view of the new regulations is not clear.

The Group's ships sail with Bulgarian and foreign crews. Their recruitment is difficult due to the convertible nature of their professions.

All vessels of the IHB fleet have ballast systems installed. In 2023, work continues in accordance with the new requirements of the International Maritime Organization (IMO) related to carbon intensity - the Energy Efficiency Index of Existing Ships (EEXI) aimed at their technical efficiency and the Carbon Intensity Indicator (CII) aimed at to their operational efficiency. In the coming years, the impact of new regulations for the reduction of carbon dioxide emissions in the atmosphere is to be assessed.

Ship building and ship repair

The decline in the freight market, shrinking possibilities of postponing mandatory class repairs of ships, and the expiry of the statutory deadline for the implementation of projects for the installation of ballast systems have boosted the orders contracted by **Bulyard Shipbuilding Industry** from early 2023. At the same time, the lifting of sanitary restrictions in China partially reduced ship repair inquiries for next quarter. Due to the continued uncertainty and challenges of restoring China's economy to pre-pandemic levels, strong customer interest is expected to ensure high plant occupancy and better results compared to those achieved in 2022. The decline in electricity prices in the first quarter has had immaterial net effect due to reduced government compensation. Prices of external services and technical gases account for growth. The military conflict between Russia and Ukraine is having a negative impact on business because of disrupted supply chains, keeping commodity prices high.

Ship design

Despite the upsurge in ship construction orders that began in 2022, the still low levels of shipbuilding are affecting the development of design services in several directions. On the one hand, tighter measures and rules to reduce the greenhouse effect of ships are reducing orders for new construction due to the lack of clarity at the moment what ships will be sought and with what engines. The development of alternatives is still at an early stage. There is also no clear time horizon in which owners can operate their ships without the need for additional investment to meet the dynamically changing environmental regulations. The demand for retrofit ballast design services is decreasing due to the approaching deadline for retrofitting the fleet in operation. In addition, the war in Ukraine and its negative effects on global economy are forcing shipowners to reconsider their investment intentions for new, as well as reconstruction and renovation of existing, vessels.

On the other hand, trends are emerging, stimulating interest to design services. Activity in coastal areas is growing. Vessels are being sought for the fishing industry and general purpose offshore vessels. Interest in specialised vessels for construction and maintenance of offshore wind farms, as well as in the conversion of vessels – either changing their purpose or increasing their functionality, is expected to grow.

The passenger ship market is dependent on the development of various factors. The lifting of most restrictions during the 2022 summer tourist season has had a positive impact on the sector. Despite the demand for such ships, including design services, orders are yet at low levels. Shipowners and financing institutions are cautious. Because of the general uncertain situation, fuelled by inflation and rising interest rates, agreed projects have been postponed yet before their start.

The management of **IHB Shipdesign** monitors the trends in the environmental protection policy. It is planned to increase the share of ships that will be retrofitted in order to decarbonize and reduce carbon emissions. Development of the so-called hybridization of ships, aiming to reduce fuel costs, as well as increased demand for engineering services to bring ships into operation in accordance with the requirements of EEXI and CII/IMO regulations effective from the beginning of 2023, is expected.

Classification and certification

The Bulgarian Ship Register (BRS, the Register) reports revenue growth in the first quarter of 2023 compared to the same period of 2022. In general, there is a drop in the number of inspections of small vessels during the winter months due to the seasonal nature of their operation. Inspections of ships on the Danube River as a safe waterway for the flow of cargo to Central Europe are increasing. Thanks to the established network of the company abroad, BRS provides its foreign clients with competitive service in terms of price and lead time. The high exchange rate of the US dollar also positively impacts its financial results.

The management's efforts are directed towards attracting new agents and shipowners, developing and offering additional services to the main ones. During the reporting period, the supervision of the scientific research vessel of the N. Y. Vaptsarov Naval Academy was completed. It is expected that a modification under the supervision of BRS will be carried out during the year. The Register offers its clients an additional service in connection with the requirements of the EEXI and CII/IMO regulations effective from the beginning of 2023. In this regard, the technical documentation of part of the BRS fleet were reviewed and approved. It is expected that the documents of the other supervised vessels, for which the requirements are in force, will also be inspected in stages.

Port operations

The port terminals of **Odessos PBM and KRZ Port Burgas** are part of the public transport ports in Varna and Burgas. Their development depends on the economic situation in Bulgaria and in the countries of the Mediterranean and Black Sea regions.

The demand for port services and cereals cargo flows through the Group's terminals is influenced mostly by the harvest in the country. Early forecasts are for good yields in the new agricultural season in our country. The open grain corridor and the import of Ukrainian grain ensured sales on the domestic market in the past quarter. Re-export deals were also realised. Local producers refrained from sales and kept a large amount of grain in storage bases in anticipation of better conditions. The military conflict has led to a drop in exports of some other types of goods as well as value-added services. In the past quarter, the Group's terminals scored lower quantities of cargo handled in total compared to the same period of 2022. Due to the gradual decrease in the price of grain and the temporary suspension of imports of grain and other crops from Ukraine, it is yet to see how this will affect the Bulgarian ports in the coming months.

The recovery of metal volumes 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 the first quarter, the cargo turnover of metals through the two Group's terminals was relatively small. In anticipation of the quotas for metals, the usual batches of them appeared at the end of March. It is expected that the situation in this market will also normalize and lead to an increase in cargo turnover in the coming months.

The terminals in the regions of Varna and Burgas are focusing their efforts on building new capacities and storage facilities aiming at improving and accelerating the processing of cereals and other cargo, which in turn strengthens the competitive environment. The two terminals in the Group are also gradually expanding their capacity. The first stage of the port expansion is being implemented by Odessos PBM – the construction of a new quay wall. At the end of March 2023, KRZ Port Burgas received a building permit for its project.

Bulport Logistics offers services in the field of small and mid-sized vessels and yachts mooring, small vessels docking for repairs, as well as the rental of offices and areas for storage and production activities. The changed work organisation after the pandemic in combination with continuing uncertainty and prices of energy resources impacted negatively on the demand for office space and repairs of small vessels.

The focus of the company is directed towards the development of its warehousing and logistics business by gradually repairing and improving the technical condition of the existing buildings and sites, developing and improving the infrastructure of the area with the aim to attract new customers.

The company is also working on expanding the services offered to its customers. In front of the office building, there is a parking lot for 160 cars, and a 22 kW electric vehicle charging station together with a 50 kW fast-charging station have been built and are functioning and available at any time of the day and night.

Machine building

The overall uncertain situation, fuelled by inflation, affects the investment activity of the clients of **ZMM Bulgaria Holding and its subsidiaries**. The effect of additional tightening of sanctions against Russia continues. In practice, the conflict in Ukraine closed the market for metal-cutting machines in Russia for the Group. Despite the restrictions, a gradual recovery in customer demand has begun since the beginning of 2023. The trend is towards an increase in new orders for heavier and longer metal-cutting machines offered by the Group. Another factor having a positive impact is the reduction of lead times. Lower freight rates are starting to bring Asian manufacturers back into global markets, but because of strained Taiwan-China relations, Western investors are still hesitant to favour Asian suppliers.

The prices of manufactured machines, adjusted in 2022, in combination with the ability to use own electric power generated by the existing solar power plants of the Group and the state subsidies, compensate partially the negative effect of inflation on profitability of the offered products.

16. 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 March 2023.

As at 31 March 2023, 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 of 31 March 2023: 65,853,988 shares held directly, representing 68.03% of the capital

2. DZHAD

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

As of 31 March 2023: 9,657,874 shares held directly, representing 9.98% of the capital.

3. Daneta Angelova Zheleva

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

As of 31 March 2023: 41,044 shares held directly, representing 0.04% of the capital and through related parties 9,658,520 shares held directly, representing 9.98% of the capital, or directly and through related parties in total 9,699,564, representing 10.02% 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 of 31 March 2023: 646 shares held directly, representing 0.0007 of the capital and through related parties 9,698,918 shares held directly, representing 10.02% of the votes, and controlled through Bulls AD 65,853,988 shares held directly, representing 68.03% of the capital, or directly and through related parties and through controlled parties 75,553,552, representing 78.04% of the capital.

Dimitar Georgiev Zhelev controls Bulls AD.

Dimitar Zhelev and Daneta Zheleva are spouses.

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.

Purchase of, sale of or pledge imposed on shares of commercial companies by the issuer or its subsidiary

None.

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 in conjunction with Art. 2 of POSA.

Daneta Zheleva

Chief Executive Officer

Industrial Holding Bulgaria PLC

Ivan Rashkov

Chief Accountant

Vladislava Zgureva

Investors Relations Director