

**REPORT ON BUSINESS ACTIVITIES
of ALLTERCO JSCo**

FIRST QUARTER OF 2023

individual basis



Pursuant to Art. 100o, Para 4 of the Public Offering of Securities Act and Art. Art. 12 of Ordinance No. 2 dated 09.11.2021 on the prospectuses for public offering and admission to trading on a regulated securities market and on the disclosure of information

These Notes to the Interim Report on the Business Activities of Allterco JSCo on an individual basis present information about the company, relevant to the end of fourth quarter of 2022 for the period 01.01.2023 – 31.03.2023 (the “reporting period”).

1. INFORMATION ABOUT THE GROUP

Allterco JSCo is a public listed joint stock company, established in 2010 in the city of Sofia and entered in the Commercial Register at the Registry Agency on 11.02.2010 under UIC (unified identification code): 201047670 and LEI code (identification code of the legal entity) 8945007IDGKD0KZ4HD95 and is established for an unlimited period. Its name is written in Latin: ALLTERCO JSCo.

The company has its registered office and address of management: Republic of Bulgaria, Sofia County, Sofia Municipality, Sofia 1407, 103CherniVrah Blvd. The address for correspondence is the same; Tel: +359 2 957 12 47. The website of the Company is www.allterco.com.

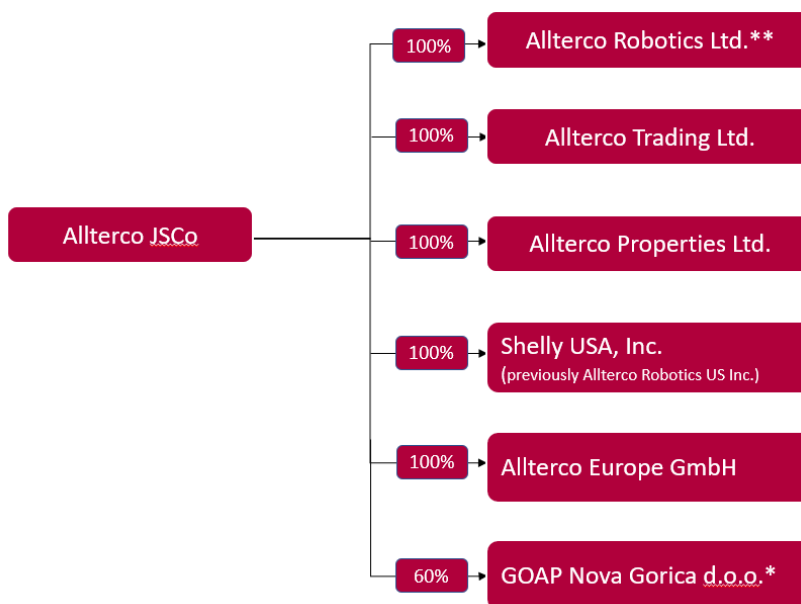
The Company is public listed within the meaning of the Public Offering of Securities Act and is registered as a public company in the register kept by the FSC with Decision 774 - PD of November 14, 2016 as a result of successfully completed initial public offering of shares from the Company’s capital increase.

Since November 22, 2021 the shares of Allterco JSCo are traded on two regulated markets in EU – Bulgarian Stock Exchange and Frankfurt Stock Exchange.

The company operates according to Bulgarian legislation.

The Issuer is part of an economic group, which consists of the parent company Allterco JSCo and its subsidiaries:

1.1. Structure of the economic group at the end of the reporting quarter for 2022



* In January 2023 the Company has closed the 1st stage of the acquisition of the Slovenian IoT provider GOAP Računalniški inženiring in avtomatizacija procesov d.o.o. Nova Gorica, (“GOAP” or the “Target Company”) which consisted in the acquisition of 60% of the share capital of the Target Company. The

transaction is based on Share Purchase Agreements (“SPAs”) that were signed with all four GOAP shareholders. The total purchase price for the 1st stage transactions is EUR 2 million.

The remaining 40% of the GOAP share capital belonging to three individual shareholders of GOAP are subject to Option Agreement that was signed together with the SPAs. Under the Option Agreement Allterco will have unconditional call options and the selling shareholders will have conditional put options on two packages of shares (the exercise of each of the sellers' options is conditional upon the achievement of certain minimum criteria of KPI, EBITDA and revenue within the period 2023 – 2025). One option is for 16% of GOAPs share capital and the other option is for 24% of GOAPs share capital. The aggregate price for the shares in case of the exercise of the options depends on the extent to which the conditions therefore are met and may range from EUR 699,999.70 (BGN 1,369,080.41) to EUR 3,449,998.60 (BGN 6,747,610.76).

GOAP participates also in the following companies which are in process of liquidation:

- 1,56% of INSTALACIJE d.d. montaža in trgovina - v stečaju, with registered address Goriška cesta 66, 5270 Ajdovščina, Slovenia, registration number 5279330000 – in process of liquidation;
- 50% of COCKPIT smart home - avtomatizacija hiš d.o.o., with registered address, Ulica Klementa Juga 7, 5250 Solkan, Slovenia, registration number: 8159211000 – in process of liquidation;

**During the reporting period the subsidiary Allterco Robotics Ltd. has registered a branch in Ireland, registered with the Companies Registration Office with registration number 909893 and registered address 38 Upper Mount Street, Dublin, D02 PR89, Ireland

Allterco JSCo has participation in a company in China, Allterco Asia Ltd. (associated company) with headquarters and registered office in Shenzhen, Guangdong Province. The capital of the new company is CNY 100 000, as the participation of Allterco JSCo is 30% with an option to acquire additional up to 50% and reach a controlling stake of up to 80%. As of the date of this individual report, the management considers this project to be high risk and therefore has no plans to exercise the option at this time.

The scope of business of the Allterco JSCo, according to Art. 4 of its Articles of Association is: Acquisition, management, evaluation and sale of share participations in Bulgarian and foreign companies; acquisition, management and sale of bonds; acquisition, evaluation, sale and assignment of licenses for the use of patents and other intellectual and industrial property rights; financing of companies in which Allterco JSCo participates; purchase of goods and other items for resale in their original, manufactured or processed form; sale of goods of own production; foreign trade transactions; commission, forwarding, warehousing and leasing transactions; transport transactions in the country and abroad; transactions of commercial representation and intermediation of local and foreign individuals and legal entities; consulting and marketing transactions; providing management and administration services to local and foreign legal entities; as well as any other commercial transactions not prohibited by law.

As a result of strategic deals, corporate changes and decisions in 2019 and 2021, the core business of the Issuer’s Group in the reporting period of 2022 remains the development, production and sale of IoT devices.

Since 2015, the Group has grown organically in the IoT sector through the development and implementation of two main product categories - tracking devices under the brand MyKi and home automation systems under the brand Shelly.

1.2. Management

During the reporting period there has been a change in the personnel of the Board of Directors. With the resolution of the General Meeting of Shareholders of 08.04.2022 there has been changed the number of the Board members from three to five, where Mr. Wolfgang Kirsch and Mr. Gregor Bieler joint to the current members.

Pursuant to the resolution of the General Meeting of Shareholders at its first meeting held on 08.04.2022. the Board of Directors elects from among its members the following executive members, Chairman and Deputy-Chairman:

- Gregor Bieler - Chairman;
- Nikolay Martinov - Deputy Chairman;
- Dimitar Dimitrov - Executive Director and Representative;
- Wolfgang Kirsch - Executive Director and Representative;
- Svetlin Todorov - Member of the Board of Directors and Representative;

The representatives represent the Company together or individually.

1.3. Capital structure

As of the end of the reporting period the issued, subscribed, paid-in and registered capital of the Company amounts to BGN 17 999 999 (seventeen million nine hundred ninety-nine thousand nine hundred ninety-nine), and is divided into 17 999 999 (seventeen million nine hundred ninety-nine thousand nine hundred ninety-nine) dematerialized ordinary registered voting shares, with a par value of 1 (one) BGN each.

The capital is fully paid in five contributions:

- Non-monetary contribution representing 100% of the shares of Teravoice EAD, with an appraised monetary value of BGN 50,000 (fifty thousand);
- Non-monetary contribution representing 69.60% of the shares of Terra Communications JSCo, with an appraised monetary value of BGN 5,438,000 (five million four hundred and thirty-eight thousand);
- A combination of non-monetary and cash contributions amounting to BGN 8,012,000 (eight million and twelve thousand).
- Cash contributions at the amount of BGN 1,500,000 (one million and five hundred thousand) compared to 1,500,000 (one million and five hundred thousand) subscribed and fully paid-in dematerialized ordinary registered voting shares with a par value of BGN 1 each, as a result of a procedure for Initial Public Offering of a new issue of shares.
- Cash contributions at the amount of BGN 2,999,999 (two million nine hundred ninety-nine thousand nine hundred ninety-nine) against 2,999,999 (two million nine hundred and ninety-nine thousand nine hundred and ninety-nine) subscribed and paid-in dematerialized ordinary registered voting shares with a nominal value of BGN 1 each, as a result of a procedure for Public Offering of a new issue of shares. The public offering of shares from the capital increase of Allterco JSCo was carried out in the period 28.09.2020 - 30.10.2020, on the basis of a Prospectus, together with the supplements thereto, confirmed by the Financial Supervision Commission with Decision № 148- F of 18.02.2020, Decision № 405-E of 11.06.2020, Decision № 601-E of 13.08.2020 and Decision № 791-E of 29.10.2020.

As of 31 March, 2023 the capital structure of ALLTERCO JSCo is as follows:

NAME OF SHAREHOLDER	CAPITAL PERCENTAGE
Svetlin Todorov	32,48 %
Dimitar Dimitrov	32,48 %
Other individuals and legal entities	35,04 %

As of March 31, 2023 the company holds 40 000 treasury shares, representing 0,22% of the registered capital.

1.4. Development and research activities

The company has not carried out activities in the area of research and development and does not plan such in the near future. One of the subsidiaries of Allterco JSCo has carried out such activity during the reporting period, namely: Allterco Robotics Ltd.

2. IMPORTANT EVENTS FOR ALLTERCO JSCo

Detailed information about the important events that occurred during the reporting period for ALLTERCO JSCo, as well as other information that could be important for investors is regularly disclosed by the company in accordance with regulatory requirements. In compliance with the requirement of Art.43a et seq. of Ordinance No. 2 of FSC, in conjunction with Art. 100t, Para 3 of the POSA, the Company discloses the regulated information to the public through selected information media. All information provided to the media in fully unedited text is available at: <http://www.x3news.com/>. The required information is submitted to the FSC - through the unified system for submission of information electronically, developed and maintained by the FSC - e-Register. The information is also available on the Company's website at: <https://allterco.com/en/INVESTORS>.

The announced important events that occurred during the reporting period did not have a significant impact on the financial results of the company on an individual basis.

3. FINANCIAL POSITION AND DEVELOPMENT OF THE BUSINESS ACTIVITIES DURING THE REPORTING PERIOD

3.1. Operating income

As of the end of the reporting period ALLTERCO JSCo reported on individual basis a loss of BGN 590 thousand, which is an increase of the loss by 90.3 % compared to the same reporting period of the previous year.

As of the end on the reporting period Allterco JSCo does not report revenues from sale of goods and services on individual basis.

REVENUE	3 months of 2022 thousand BGN	y/y change %	3 months of 2023 thousand BGN
Sales revenue	0	0	0
Other revenue	0	0	0
Total operating revenue	0	0	0
Profit (loss) form operation with financial assets	0	0	0
Total financial income	0	0	0

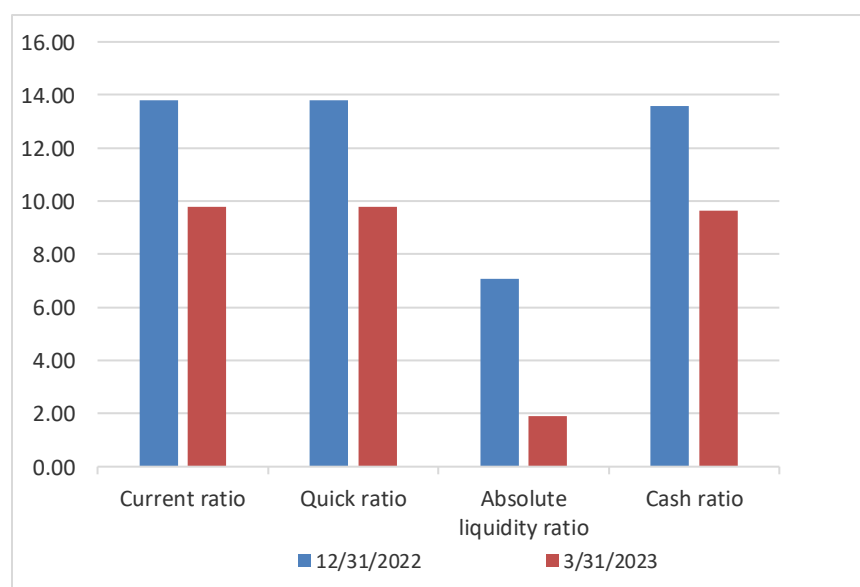
3.2. Operating expenses

As of the end of the reporting period the total operating expenses of ALLTERCO JSCo increased by 37,5 % compared to the same reporting period of the previous year. This increase is mainly due to the increase of the expenses for salaries, which increased by 180,3%..

The biggest part of the reported operating expenses for the period is comprised of expenses for salaries and social securities with 71,6% share in total expenses, followed by external services with a share of 26.3 %. The salaries expenses include the remuneration of the members of the Board of Directors, which is determined by a decision of the shareholders meeting, as well as the salaries of 4 employees that have labor contracts with the Company.

EXPENSES	3 months of 2022 thousand BGN	y/y change %	3 months of 2023 thousand BGN
Materials	0	-	1
External services	214	-36.4%	136
Depreciation	5	0.0%	5
Salaries	127	180.3%	356
Social security	9	55.6%	14
Other administrative expenses	0	-	2
Total administrative expenses	355	44.8%	514
Other operating expenses	21	-85.7%	3
Sales expenses	376	37.5%	517

3.3. Financial indicators



LIQUIDITY RATIOS	12/31/2022	3/31/2023
Total liquidity ratio	13.80	9.78
Rapid liquidity ratio	13.80	9.78
Absolute liquidity ratio	7.07	1.91
Immediate liquidity ratio	13.57	9.64

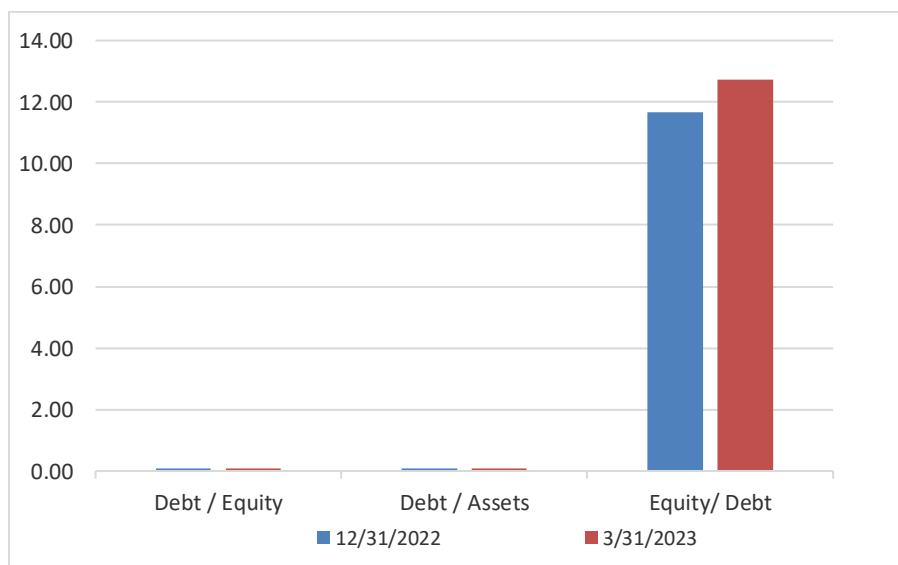
The total liquidity ratio at the end of the reporting period decreased due to the following: the current assets decreased by 40,6% compared to the end of 2022, while the current liabilities decreased by 16.2%.

The rapid liquidity ratio at the end of the reporting period decreased due to the following: the current assets decreased by 40.6% compared to the end of 2022, while the current liabilities decreased by 16.2%.

The absolute liquidity ratio at the end of the reporting period decreased due to the following: the current liabilities decreased by 16.2 % compared to the end of 2022, while cash decreased by 77.3 % as a result of the acquisition of shares in the Slovenian company GOAP and the financing of the same company.

The immediate liquidity ratio at the end of the reporting period decreased due to the following: The current liabilities decreased by 16.2 % compared to the end of 2022, while cash decreased by 77.3 % and the commercial receivables increased by 0.1%.

Financial autonomy coefficients



DEBT RATIOS	12/31/2022	3/31/2023
Debt / Equity	0.09	0.08
Debt / Assets	0.08	0.07
Equity / Debt	11.66	12.72

The change in the debt/equity ratio at the end of the reporting period is due to the following: the Company's total liabilities decreased by 10.1 % compared to the end of 2022, and equity decreased by 2.0%.

The change in the debt/assets ratio at the end of the reporting period is due to the following: the Company's total assets decreased by 2.6% compared to the end of 2022, while the Company's total liabilities decreased by 2.0%.

The change in the financial autonomy ratio at the end of the reporting period is due to the following: the total liabilities of the Company decreased by 10.1 % compared to the end of 2022, and equity decreased by 2.0%

4. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

The risks associated with the core business of the Company can generally be divided into systemic (general) and non-systemic (related specifically to its business and the industry in which it operates). Relevant for the Company are also the similar categories of risks inherent in the company business and the industry in which its subsidiaries operate, insofar as they are the main source of the Company's income. Separately, investors in the Company's financial instruments are also exposed to risks related to the investments in securities themselves (derivative and underlying)

4.1. SYSTEMIC RISKS

Systemic risks are related to the market and the macro environment in which the Company operates, which is why they cannot be managed and controlled by the Company's management team. Systemic risks are: political risk, macroeconomic risk, inflation risk, currency risk, interest rate risk, tax risk and unemployment risk.

Type of risk	Description
POLITICAL RISK	<p>Political risk is the likelihood of a change of Government, or of a sudden change in its policy, of occurrence of internal political turmoil and adverse changes in European and/or national legislation, as a result of which the environment in which local businesses operate will change negatively, and investors will incur losses. In November 2021, the country held for the second time early parliamentary elections for the Ordinary National Assembly, as a result of which for the political party ruling in last 12 years lost its position in the state governance and a new government is expected to be formed. Early parliamentary elections were held in April 2023, and as of the date of this report, the process to form a regular government is underway</p> <p>Political risks for Bulgaria internationally are related to the commitments undertaken to implement serious structural reforms in the country in its capacity as an equal member of the EU, increasing social stability, limiting inefficient spending, on the one hand, as well as the strong destabilization of the countries of The Middle East, military interventions and conflicts in the region of the former Soviet Union, the refugee waves generated by these factors, and the potential instability of other key countries in the immediate proximity of the Balkan</p> <p>Other factors that also affect this risk are the possible legislative changes and in particular those concerning the economic and investment climate in the country.</p>
GENERAL MACROECONOMIC RISK	<p>According to the National Statistical Institute, in March 2023 the overall business climate indicator In March 2023 the overall business climate indicator remained at its February level. A decrease in the indicator was recorded in industry, retail trade and the service sector, while construction saw an increase.</p>

Business climate – total, Source: NSI¹



According to the ECB experts' March 2023 forecasts, average annual real GDP growth is expected to slow significantly to 1.0% in 2023 (from 3.6% in 2022), then to rise to 1.6% in 2024 and 2025. Compared with the December 2022 macroeconomic forecasts of the Eurosystem experts, the GDP growth forecast has been revised up by 0.5 percentage points for 2023, following the surprise positive data reported in the second half of 2022 and the improved short-term outlook. For 2024 and 2025, it has been revised down by 0.3 percentage points and 0.2 percentage points, respectively, as tightening financing conditions and the recent appreciation of the euro offset the full positive effect of lower inflation on incomes and confidence..²

INTEREST RATE RISK

Interest rate risk is related to possible negative changes in interest rates established by the financial institutions of the Republic of Bulgaria.

On March 16, 2023, the interest rate risk will be determined by the European Central Bank. The Governing Council decided to raise the three key ECB interest rates by 50 basis points each in line with its decision to ensure a timely return of inflation to the medium-term target of 2%. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be raised to 3.50%, 3.75% and 3.00% respectively with effect from 22 March 2023.³

01.01.2022	0.00
01.02.2022	0.00
01.03.2022	0.00
01.04.2022	0.00

*Source: BNB⁴

INFLATION RISK

Inflation risk is a general price increase in which money depreciates and households and firms are likely to suffer a loss.

The consumer price index is the official measure of inflation in the Republic of Bulgaria. It assesses the overall relative change in the prices of goods and services used by households for personal (non-productive) consumption and is calculated by applying the structure of final monetary consumption expenditure of Bulgarian households.

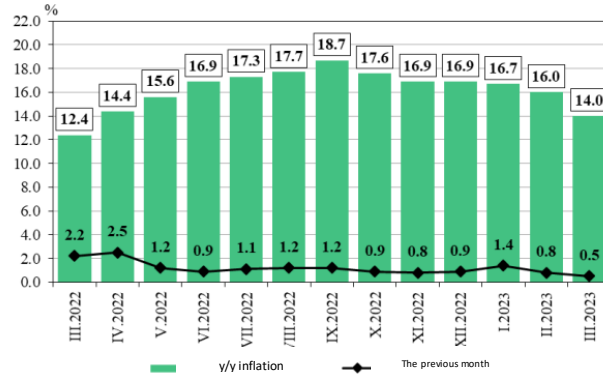
¹ https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2023-03_V1B5DUZ.pdf

² https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202302_bg.pdf

³ https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202302_bg.pdf

⁴ <https://www.bnb.bg/Statistics/StBIRAndIndices/StBIBaselInterestRate/index.htm>

According to the NSI, in March 2023 the monthly inflation rate is 0.5% compared to the previous month, and the annual inflation rate for March 2023 compared to March 2022 is 14.0%.¹ The inflation rate since the beginning of the year (March 2023 compared to December 2022) is 2.6%, and the average annual inflation rate for the period April 2022 - March 2023 compared to the period April 2021 - March 2022 is 16.5%.⁵



**the inflation measured by the consumer price index, by months, Source: NSI*

According to the March 2023 HICP, monthly inflation was 0.6% from the previous month, and annual inflation for March 2023 to March 2022 was 12.1%.¹ Year-to-date inflation (March 2023 to December 2022) was 2.5%, and average annual inflation for April 2022 to March 2023 to April 2021 to March 2022 was 14.1%.

ECB experts report that inflation fell to 8.5% in February. Its slowdown is due to another sharp fall in energy prices. Headline inflation in the Eurosystem is expected to fall below 3.0% by the end of 2023 and stabilise at 2.9% in 2024, before slowing further to the inflation target of 2.0% in the third quarter of 2025, averaging 2.1% for the year. In contrast to headline inflation, core inflation as measured by HICP excluding energy and food will be higher on average in 2023 than in 2022, reflecting lagged effects related to the indirect impact of both the previous high energy prices and the previous strong depreciation of the euro, which will prevail in the short term.⁶

CURRENCY RISK

Exposure to currency risk is the dependence and effects of changes in exchange rates. Systemic currency risk is the probability of a possible change in the currency regime of the country (currency board), which would lead either to BGN devaluation or to BGN appreciation compared to foreign currencies.

Currency risk will have an impact on companies with market shares, the payments of which are made in a currency other than BGN and EUR. Since, according to the current legislation in the country the Bulgarian lev is fixed to the euro in the ratio EUR 1 = BGN 1.95583, and the Bulgarian National Bank is obliged to maintain a level of Bulgarian levs in circulation equal to the bank's foreign exchange reserves, the risk of devaluation of the BGN compared to the European currency is minimal and consists in the eventual early abolition of the currency board in the country. At this stage, this seems unlikely, as the currency board is expected to be abolished upon the adoption of the EUR in Bulgaria as an official unit of payment.

Theoretically, currency risk could increase when Bulgaria joins the second stage of the European Exchange Rate Mechanism (ERM II). This is a regime in which the country must

⁵ https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-03_V42JJYX.pdf

⁶ https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-03_V42JJYX.pdf

maintain the exchange rate compared to the EUR within +/- 15% on the background of the central parity. In practice, all countries currently in this mechanism (Denmark, Estonia, Cyprus, Lithuania, Latvia, Malta) are witnessing fluctuations that are significantly less than the allowed ones of $\pm 15\%$.

On July 10, 2020, Bulgaria joined the ERM II exchange rate mechanism, known as the 'euro area's waiting room'. The central rate of the Bulgarian lev is fixed at EUR 1 = BGN 1.95583. Around this central exchange rate of the BGN, the standard range of plus or minus 15 percent will be maintained. Bulgaria joins the exchange rate mechanism with its existing currency board regime, as a unilateral commitment and without additional requirements to the ECB.⁷ At the same time, our country must enter into close cooperation with the unified banking supervision. The fixed exchange rate of the BGN to the EUR does not eliminate for the Bulgarian currency the risk of unfavorable movements of the euro exchange rate against other major currencies (US dollar, British pound, Swiss franc) on the international financial markets, but at present the company does not consider that such a risk would be material to its business. The company may be affected by currency risk depending on the type of cash flow currency and the type of currency of the company's potential loans.

The Allterco JSCo Group companies operate in Bulgaria as well as in EU countries and first countries, mainly in the USA and the Asia-Pacific region. At present, the main revenues from the Group's IoT business are in BGN or EUR, and the costs of delivery of goods in this segment are mainly in US dollars and are largely tied to the Chinese yuan, which is why the appreciation of the US dollar or Chinese yuan would have an adverse effect on the business performance. In terms of US dollar exposure, the Group companies are expected to have significant US dollar sales revenue in the US and other non-EU markets in the future, which to some extent balances the Group's net exposure to this major currency.

To limit the effects of the currency risk, the companies of the Group have introduced a system for planning the deliveries from countries inside and outside the EU, as well as procedures for ongoing monitoring of the movements in the exchange rates of the foreign currencies and control over the forthcoming payments. Currently, the Group companies do not use derivative instruments for hedging the currency risk but, if necessary, the management is ready to enter into such transactions.

Credit risk of the state

Credit risk is the probability of deterioration of Bulgaria's international credit ratings, caused by the government's inability to repay its liabilities regularly. Low credit ratings of the country can lead to higher interest rates, more difficult financing conditions, both for the state and for individual economic entities, including the Issuer. Credit ratings are prepared by specialized credit rating agencies and serve to determine and measure a country's credit risk. Bulgaria's credit rating is presented in the following table:

Table 1: Credit risk of Bulgaria

Credit agency	Date of last change	Long-term rating	Prospects
Standard & Poor's	26.11.2022 ⁸	BBB/A-2	Stable
Fitch	19.11.2022 ⁹	BBB	Positive

Source: Ministry of Finance

⁷ https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202302_bg.pdf

⁸ <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200710~4aa5e3565a.en.html>

⁹ <https://www.minfin.bg/bg/news/12025>

The international credit rating agency S&P Global Ratings affirmed its long-term and short-term foreign and local currency sovereign credit ratings on Bulgaria at “BBB/A-2”. The outlook remains stable.

The stable outlook balances Bulgaria's weaker economic growth prospects in the near term and elevated domestic political uncertainty against Bulgaria's low net general government debt and contained interest expenditures. In S&P Global Ratings' view, this affords Bulgaria a policy buffer and leaves its public finances less susceptible to a swift increase in interest rates globally. Bulgaria is currently experiencing high inflation, which, in S&P Global Ratings' view, could pose challenges to it becoming a member of the eurozone in 2024.

S&P Global Ratings expects Bulgaria's GDP growth to weaken notably in the coming months. Although the economy has remained more resilient in 2022 against fallout from the Russia-Ukraine conflict than the rating agency initially expected, several challenges lie ahead. In particular, the rating agency expects external demand from Bulgaria's main trading partners in the EU will reduce and domestic consumption will lose steam as continuously high inflation, which is estimated at close to 10% on average in 2023, weighs on real wages. Positively, EU-funded projects will provide some support to the economy. S&P Global Ratings projects real growth of less than 1% in 2023 – a substantial slowdown from the 3% it anticipates for 2022.

According to S&P Global Ratings, Bulgaria is gradually progressing in its efforts to enter the eurozone, but it remains unclear whether it will be granted membership in 2024 due to several remaining obstacles. Bulgaria's successful accession to the eurozone would eliminate residual euro exchange rate risks in its economy, improve the country's access to euro capital markets, and grant domestic banks direct access to the ECB resources. However, Bulgaria is currently experiencing high inflation (at close to 15%), which, in the view of the rating agency, could complicate the task of meeting the inflation convergence criterion next year. Domestic political uncertainty also persists with a caretaker government still in office following the most recent snap election in October 2022, hampering the process of preparing for accession.

The rating agency could raise the ratings on Bulgaria if it became a eurozone member; improvements in Bulgaria's balance of payments position could also support an upgrade. S&P points out that it could lower the ratings if Bulgaria's economic prospects deteriorated significantly compared to the rating agency's current expectations, which could occur, for example, due to stronger second-round effects from a slowdown in global growth, the regional security situation significantly worsening, or disruptions of energy imports from Russia threatening the availability of sufficient energy supplies for Bulgaria's economy.¹⁰

The international credit rating agency Fitch Ratings has affirmed Bulgaria's long-term foreign and local currency Issuer Default Ratings (IDR) at “BBB” with a Positive Outlook.

Bulgaria's ratings are supported by its strong external and public balance sheets versus 'BBB' peers and a credible policy framework, underpinned by EU membership and a long-standing currency-board. This is balanced by unfavourable demographics, which weigh on potential growth and government finances over the long term.

The Positive Outlook reflects the prospect of euro adoption, which could lead to further improvements in external metrics. The authorities remain committed to euro adoption by

¹⁰ <https://www.minfin.bg/bg/news/12018>

	<p>2024, with risks around the timeline mainly tied to exogenous factors. The rating agency does not expect a delay of more than one year in euro accession if the country fails to meet convergence criteria in 2023, as it considers that there is a clear commitment at EU level to expedite the process.</p> <p>Fitch Ratings forecasts GDP growth to slow to 3% in 2022 from 4.2% in 2021 as higher inflation and weaker external demand affect consumption and external trade, respectively. Economic performance in 1Q22 held up surprisingly well as private consumption remained resilient, but the rating agency expects activity to weaken as inflationary pressures accentuate throughout 2022. Fitch Ratings continues to expect a modest acceleration of growth in 2023 (to 3.8%) largely due to stronger investment linked to EU Funds. Political uncertainty remains an important downside risk. The renewed prospects of new elections could delay absorption of funds linked to the Recovery and Resilience Plan (RRP), which was finally approved in April. However, the risks around a more substantive slowdown appear contained at present, highlighting the economy's resilience in the last couple of years to both domestic and external shocks.</p> <p>In response to inflation and energy price shock, the government proposed a 2022 budget law revision. It foresees a set of support measures worth around BGN 2.1 billion (2.0% of GDP). Next to VAT rate cuts on some products, increase of tax relief for families with children and fixed compensation for liquid fuel prices, the plan envisages a two-stage pension hike in July and October.</p> <p>Fitch Ratings forecasts the budget deficit to widen to 4.9% of GDP in 2022, from 4.1% of GDP in 2021, driven predominantly by support measures. In its view, the deficit will narrow to 2.9% of GDP in 2023 as expenditure pressures recede. Despite wider deficits, Bulgaria's public debt ratio will remain very low compared with EU countries and 'BBB' peers.</p> <p>The key factors that could lead to positive rating action/upgrade include progress toward eurozone accession, including greater confidence in Bulgaria meeting membership criteria and an improvement in economic growth potential, Factors that could lead to negative rating action/downgrade include a significant delay in the timeline of eurozone accession or a large adverse macroeconomic shock, which would materially lower medium-term growth prospects compared with Fitch's current expectation.¹¹</p>
Unemployment risk	<p>As a major factor affecting consumer purchasing power, an increase in unemployment would reduce demand for IoT products. On the other hand, the demand for staff from businesses continues to be very active, so such a risk seems negligible within the next year.</p> <p>Eurostat estimates the seasonally adjusted unemployment rate in the euro area at 6.6% in February 2023, stable compared to January 2023 and down from 6.8% in February 2022. In February 2023, the EU unemployment rate was 6.0%, down from 6.1% in January 2023 and from 6.2% in February 2022.¹²</p> <p>The unemployment rate in Bulgaria in January 2023 was 3.9%, down from 4% in December 2022 and from 4.5% in January 2022The administrative statistics of the Bulgarian</p>

¹¹ <https://www.minfin.bg/bg/news/12025>

¹² [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment statistics#Unemployment in the EU and the euro area](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics#Unemployment_in_the_EU_and_the_euro_area)

	Employment Agency report a registered unemployment rate of 4.7% in the las month of 2022 and continue to decline in annual terms - in this case by 0.1 percentage points. ¹³
Risk associated with the legal system	Although Bulgaria has introduced a number of significant legislative changes since joining the EU and most of the Bulgarian legislation has been harmonized with EU legislation, the legal system in the country is still in the process of reform. Judicial and administrative practices remain problematic and it is difficult to effectively resolve property disputes, breaches of laws and contracts and other. Deficiencies in the legal infrastructure can result in uncertainties arising from the implementation of corporate actions, the implementation of supervision and other issues.
TAX RISK	It is essential for the financial performance of the companies to maintain the current tax regime. There is no guarantee that the tax legislation, which is directly relevant to the core business of the Company, will not be changed in a direction that would lead to significant unforeseen expenses and, accordingly, would adversely affect its profit. The taxation system in Bulgaria is still developing, as a result of which a contradictory tax practice may arise.

4.2. NON-SYSTEMIC RISKS

Risks related to the industry in which the Group operates

Such risks are: risk of shortage of key personnel, risk of strong competition, risk related to personal data security and hacker attacks, risk of technology change.

Risk of shortage of key personnel

One of the biggest challenges for technology companies, such as the companies of the Group, as well as given the specific scope of their business in the field of telecommunications and engineering and software development, is the shortage of skilled personnel. Insufficient availability of suitable staff in the subsidiaries could adversely affect the future development of the Group due to delays in the development of new products/services and the maintenance of existing ones. On the other hand, the high competition in this sector raises the cost of labor. Thus, the financial position and market share of the Group companies could suffer.

Risk of strong competition

After the sale of most of the telecommunication business of the group, the Group companies operate mainly in the segment of the Internet of Things (IoT). This segment is one of the most modern and promising sectors of the industry, which attracts the interest of many technology giants and start-up companies. The loss or inability to gain market share and the fall in final product prices due to increased competition may have a negative effect on revenue, profit and profit margins. Maintaining a competitive position requires investment in the creation of devices with new utilities, improvement of existing solutions and expansion of market share and it cannot be taken for granted that new developments will be established among the competing ones on the market.

¹³ https://ec.europa.eu/eurostat/statistics-explained/images/c/c0/Extra_tables_Statistics_explained_31-03-2023.xlsx

Risk related to personal data security and hacker attacks

The technology industry is characterized by digital transmission of information that could be strictly confidential, containing personal data of users of products, financial information of companies, information about new products and other. The protection of such information is a critical factor for the normal operation of companies in the industry, including of the Group. The sales of the devices and the use by the users of the accompanying mobile applications and cloud services provided by the Group are related to the exchange and storage of personal data. Potential breaches in information security can lead to: i) Loss of customers and/or partners and their migration to competing companies; (ii) Imposing sanctions and lawsuits related to breaches of applicable data protection and privacy laws; (iii) Lost or delayed orders and sales; (iv) Adverse effects on reputation, business, financial position, profits and cash flows.

Risk of regulatory and specific technical requirements

The supply of IoT devices is related to *regulation regarding the certification of products* for sale in the respective country. In the European Union, products are required to bear the 'CE' marking, which indicates that the product has been evaluated and meets the requirements of safety, health and environmental protection. In the US, the equivalent is 'UL' certification. For certification purposes, accredited laboratories are assigned compliance tests, which involve significant costs. In addition, specifics in the requirements of local regulators and contractors (especially mobile operators) may require additional tests and certification to be performed, which increases the cost of entering a particular market or particular distribution channel.

Sales of the Group companies' products cover an increasing number of markets, which often have local regulation regarding the certification of similar products in the respective country. Meeting the requirements of local regulation is related to time and resources and may delay the Company in entering new markets or require additional costs in order to meet different standards.

The change in regulatory requirements for devices may involve additional costs for making them compliant with the new requirements, including costs for withdrawing products from the market to making them compliant with these requirements. The Group companies and their local partners regularly monitor planned changes in the legislation and take timely measures to ensure the compliance of products with them.

Eventual changes in the regulations in the telecommunications sector, could have some impact on the operation of the Group as mobile operators are one of the main sales channels for existing MyKi series products. Big part of the devices developed and sold by the companies in the IoT Group use Internet-based technology and can work with the services of any Internet provider. To that effect, the Group is now less dependent on regulations in the field of telecommunications, insofar as the companies in its structure are not providers of telecommunication services and mobile operators are only one of the channels for trade and distribution of IoT devices.

Risk of technology change

The Issuer and its subsidiaries operate in an extremely dynamic segment, in which technologies have a significant impact and are a source of competitive advantage. To that effect, there is a risk of delayed adaptation to new technologies due to lack of knowledge, experience or sufficient funding, which may have a negative impact on the Issuer. The slow adaptation to the new realities may lead to a loss of competitive positions and market shares, which in turn will lead to a deterioration of the Group's performance.

Risks related to the Group's business

Such risks are: operational risk, risk related to business partners, risks arising from new projects and liquidity risk.

Operational risk

Operational risk can be defined as the risk of loss as a result of inadequate or non-functioning internal management procedures. Such risks may be caused by the following circumstances:

- Adoption of wrong operational decisions by the management staff related to the management of current projects;
- Insufficient amount of skilled personnel needed for the development and implementation of new projects;
- Leaving key employees and inability to replace them with new ones;
- Risk of excessive increase in management and administration costs, leading to a decrease in the overall profitability of the Issuer;
- Technical damages leading to prolonged interruption of the provided services may lead to termination of contracts with clients.

The effects of such circumstances would be a decrease in the Issuer's revenues and deterioration of its business performance.

Risk associated with business partners

Production activities in the IoT segment is outsourced, mainly to China, concentrated in several manufacturers. Potential risks associated with key subcontractors are related to the accurate and timely execution of deliveries or termination of business relationships. Although management believes that there is a wide range of alternative suppliers, the possible transfer of production to new partners and diversification of subcontractors may lead to delivery delays and additional costs, which may affect the ability of the Group companies to perform agreed orders from customers and adversely affect the Group's reputation and financial performance.

Risks arising from new projects

The main business activity of Allterco JSCo is related to investments in subsidiaries. There is a risk that some of the subsidiaries will not be able to meet their goals, which will lead to lower or negative return on investment.

The development of new products and services by the subsidiaries of Allterco JSCo is related to the investment in human resources, software, hardware, materials, goods and services. Should new products and services fail to be marketed, such investments would be unjustified. This in turn would have a negative impact on the costs and assets of the Company, as well as on the performance of its business activities. In order to manage the risk arising from new projects, the Group companies perform a market analysis, prepare a financial analysis containing different scenarios, and in some cases discuss with potential customers the concept of the new service/product.

Liquidity risk

The expression of the liquidity risk in relation to the Group is associated with the possibility of lack of timely and/or sufficient available funds to meet all current liabilities. This risk may appear both in case of significant delay of the payments by the debtors of the Company, as well as in case of insufficiently effective management of the cash flows from the operation of the Company.

Some of the Group companies use bank financing in the form of an investment loan, overdraft or revolving credit line, which can be used in case of liquidity problems.

The company pursues a conservative liquidity management policy, through which it constantly maintains an optimal liquidity cash reserve and good ability to finance its business activities. In order to control the risk, the Company monitors the timely payment of incurred liabilities. The company monitors and controls the actual and projected cash flows for periods ahead and maintains a balance between the maturity limits of the assets and liabilities.

5. TRANSACTIONS WITH RELATED OR INTERESTED PARTIES

For the reporting period the Company has not entered into transactions with interested parties in the meaning according to POSA.

The Company has not entered into any transactions with other Group companies that fall beyond their scope of regular business or that significantly deviate from the market conditions.

- The company uses rental cars from its subsidiary at a total value of BGN 4 thousand (reported as amortization expense of assets with right to use, in accordance with IFRS16 the carrying amount of recognised right-of-use assets is BGN 34 thousand and the current lease liability is BGN 13 thousand).
- Allterco JSCo has granted in March 2023 a cash loan to its subsidiary GOAP Računalniški inženiring in avtomatizacija proces d.o.o., Nova Gorica in the amount of BGN 978 thousand (EUR 500 thousand) under the following conditions: repayment term 31.12.2029, interest rate - according to the statistical data published by the Bulgarian National Bank on 'Interest rates and volumes on non-overdraft balances for the non-financial corporations sector (in EUR over 5 years)';
- During the period, Allterco JSCo accrued interest income of BGN 4 thousand on an additional cash contribution to Allterco Robotics US with a new name - Shelly USA, Inc.

For more information on deals with related parties see Note 6 of the financial report as of March 31, 2023.

Board of Directors

During the reporting period, to the members of the Board of Directors have been paid gross remunerations in total amount of BGN 258 thousand. The amounts paid are in compliance with the approved remuneration policy of the Company and the changes made in the number of seats in the Board and the appointment new members, that were appointed on an extraordinary meeting of shareholders held on April 8, 2022.

At the General Meeting of Shareholders held on 13.12.2022, a decision was adopted to amend the remuneration policy, as well as the schemes for providing the members of the Board of Directors with variable remuneration in shares of the company for the period 2022 – 2025.

At the end of the reporting period, the Company had no payables to its key management personnel.

6. INFORMATION ON NEWLY INCURRED SIGNIFICANT RECEIVABLES AND/OR LIABILITIES FROM THE BEGINNING OF THE YEAR TO THE END OF THE REPORTING QUARTER

There are no newly incurred significant receivables and/or liabilities, excluding the cash loan provided to GOAP Računalniški inženiring in avtomatizacija proces d.o.o., Nova Gorica.

7. INFORMATION ON THE TRADING IN THE SHARES OF ALLTERCO JSCo DURING THE REPORTING PERIOD

Historical data on trade

Date	Volume	Turnover	Highest value	Lowest value	Opening value	Closing value
20.04.2023	5449	122784.70	22,700	22,200	22,500	22,600
31.03.2023	79538	1791590.70	23,000	22,000	22,500	22,000
28.02.2023	49044	1099266.80	23,000	21,000	21,100	22,800
31.01.2023	25137	539302.60	22,200	20,200	20,600	21,100

Source: Investor.bg

Information on the trading of Allterco JSCo shares during the reporting period on the Frankfurt Stock Exchange is available at <https://www.boerse-frankfurt.de/equity/allterco-jsc/price-history/historical-prices-and-volumes>

8. EVENTS AFTER THE END OF THE REPORTING PERIOD

After the end of the reporting period, Allterco JSCo submitted to the FSC, the BSE and the public additional information.

Date	NOTIFICATION
05.04.2023	<p>The Company has announced to the FSC and to the Public the following information:</p> <p>Based on preliminary data as of the end of the first quarter of 2023, we hereby inform you about the following:</p> <p>Allterco JSCo a 62.2% year-on-year increase in Q1 2023 in revenue from sales of devices and related services to EUR 14.2 million (BGN 27.8 million), based on preliminary data. The revenue from sales of Shelly-branded IoT devices increased by 63.9%, amounting to EUR 13.9 million (BGN 27.2 million), followed by the revenue from sales of MyKi tracking devices, which increased by 14.1% to EUR 0.3 million (BGN 0.6 million). The Company will officially disclose consolidated financials for Q1 2023 on 15 May. Note: EUR/BGN exchange rate as of 5 April 2023 - EUR 1 = BGN 1.95583. For further information, please visit allterco.com.</p>

9. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

The company does not experience any negative effect on its activities from the continuing pandemic of COVID-19 and the military conflict in Ukraine. The management expects that these events will not have any negative impact on the business of the Company in the foreseeable future.

During the reporting period, Allterco JSCo entered into a non-binding investment intent agreement (Term Sheet) regarding the material parameters of an investment in Ground Solutions Group plc by way of participation in a capital increase and subscription for new preference shares in the capital of its subsidiary Corner Solutions Ltd (the Investment), namely 625 new preference shares representing 10% of the capital of Corner Solutions Ltd. after the increase, for a price of EUR 100 000. The Investment will be made jointly with Vitosha Venture Partners - Fund I KD, UIC: 206223492. The conclusion of an Investment Agreement is subject to further negotiations between the parties. There are no interested parties involved in the transaction.

The Company considers that there is no other information that has not been publicly disclosed that would be important to shareholders and investors in making an informed investment decision.

Date: 26 April 2023

For ALLTERCO JSCo:

Dimitar Dimitrov
CEO