

**INTERIM REPORT ON BUSINESS ACTIVITIES**  
**of SHELLY GROUP AD**  
**fourth quarter of 2023**  
**consolidated 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 for initial and subsequent disclosure of information in public offerings of securities and admission of securities to trading on a regulated market**

*These Notes to the Interim Report on the Business Activities of SHELLY GROUP AD (former company name ALLTERCO JSCo) on a consolidated basis present information about the company, relevant to the end of fourth quarter of 2023 for the period 01.01.2023 –31.12.2023 (the “reporting period”).*

## 1. INFORMATION ABOUT THE GROUP

SHELLY GROUP AD 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: SHELLY GROUP AD (former company name ALLTERCO JSCo).

The company has its registered office and address of management: Republic of Bulgaria, Sofia County, Sofia Municipality, Sofia 1407, 103 Cherni Vrah Blvd. The address for correspondence is the same; Tel: +359 2 957 12 47. The website of the Company is [corporate.shelly.com](http://corporate.shelly.com).

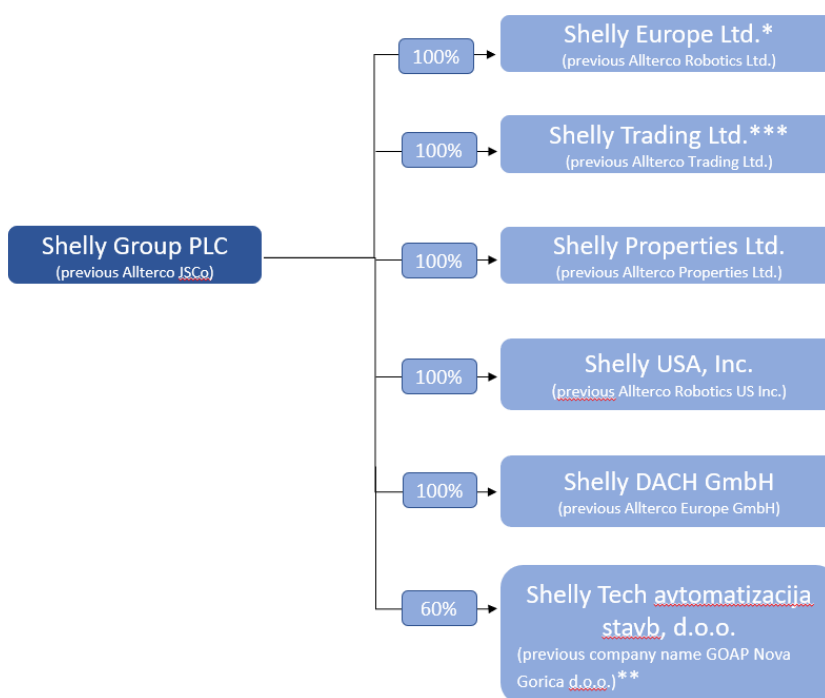
The Company is public listed within the meaning of the Public Offering of Securities Act and is registered as a public company in the register kept by the FSC with Decision 774 - PD of November 14, 2016 as a result of successfully completed initial public offering of shares from the Company’s capital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

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

The company operates according to Bulgarian legislation.

The economic group consists of the parent company SHELLY GROUP AD and its subsidiaries as shown below:

### 1.1. Structure of the economic group at the end of the fourth quarter for 2023



\* The subsidiary Shelly Europe Ltd. (*former company name "Allterco Robotics"*) 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, registered in November 2022.

\*\* In January 2023 the Company has closed the 1st stage of the acquisition of the Slovenian IoT provider Shelly Tech avtomatizacija stavb, d.o.o. (former company name GOAP Računalniški inženiring in avtomatizacija procesov d.o.o. Nova Gorica), referred hereinafter as "the Slovenian Company" / "Shelly Tech" 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 SHELLY GROUP AD 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).

Shelly Tech d.o.o. has 1.56% participation in the capital of INSTALACIJE d.d. montaža in trgovina - v stečaju, with registered address Goriška cesta 66, 5270 Ajdovščina, Slovenia, registration number 5279330000. The company is in process of liquidation procedure that is expected to finish in 2024;

\*\*\*In the end of 2023 the subsidiary Shelly Trading Ltd. registered a branch office in the United Kingdom (UK establishment number BR 026108).

SHELLY GROUP AD 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 SHELLY GROUP AD is 30% with an option to acquire an additional up to 50% and reach a controlling stake of up to 80% upon decision of the group.

SHELLY GROUP AD has participation of 625 new preference shares representing 10% of the capital of Corner Solutions Ltd. The participation was acquired for the price of BGN 196 thousand (EUR 100 000) as a result of an Investment Agreement that was entered into in the reporting quarter by and between Shelly Group AD and Vitosha Venture Partners - Fund I KD, UIC: 206223492, as co-investors, on one hand, and Ground Solutions Group AD, its founders Mr. Vladimir Konstantinov Todorov, Mr. Denis Krasimirov Florov, Mr. Nikola Konstantinov Ruychev and Corner Solutions Ltd, with UIC 206375571, on the other hand.

The scope of business of the SHELLY GROUP AD, 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 SHELLY GROUP AD 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 transactions, corporate changes and decisions in 2019 and 2021, the core business of the Issuer's Group in the reporting period of 2023 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 change in the personnel of the Board of Directors. The General Meeting of Shareholders of 18.12.2023 voted on a personnel change in the Board of Directors. With effect from 01.01.2024, Mr. Christoph Vilanek replaced Mr. Gregor Bieler, who resigned from his position as a member of the Board of Directors due to increase in his professional engagements. The change was registered with the Commercial Register and the Register of the Non-Profit Entities by the Registry Agency on 09.01.2024. At the date of this report, the Board of Directors includes:

- Christoph Vilanek - 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 18 050 945 (eighteen million fifty thousand nine hundred forty-five) BGN, divided into 18 050 945 (eighteen million fifty thousand nine hundred forty-five), and is divided into 18 050 945 (eighteen million fifty thousand nine hundred forty-five) 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 SHELLY GROUP AD 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.
- In July 2023 the Company's capital was increased to 18 050 945 (eighteen million fifty thousand nine hundred forty-five) BGN, divided into 18 050 945 (eighteen million fifty thousand nine hundred forty-five) ordinary registered shares with voting rights, with a par value of 1 (one) BGN per share. The increase was made by cash contributions in the total amount of BGN 50 496 (fifty thousand four hundred ninety-six) in procedure of initial public offering of the issue of shares, held in the period from 28.06.2023 to 29.06.2023, in accordance with the procedure under Art. 112, par. 3 of the Public Offering of Securities Act, without a prospectus and based on Information Document pursuant to Article 1(4)(i) in conjunction with Article 1(5)(h) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market

As of 31 December, 2023 the capital structure of SHELLY GROUP AD is as follows:

NAME OF SHAREHOLDER	CAPITAL PERCENTAGE
Svetlin Todorov	30,39 %
Dimitar Dimitrov	32,00 %
Other individuals and legal entities	37,61 %

At the end of the reporting period, the Company held no treasury shares.

#### **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 SHELLY GROUP AD has carried out such activity during the reporting period, namely: Shelly Europe Ltd. (*former company name Allterco Robotics Ltd.*)

## 2. IMPORTANT EVENTS FOR SHELLY GROUP AD

Detailed information about the important events that occurred during the reporting period for SHELLY GROUP AD, 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://corporate.shelly.com>.

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 consolidated 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 SHELLY GROUP AD reported on a consolidated basis a profit of BGN 32 920 thousand, which is an increase of 88.8% compared to 2022.

During the reporting period SHELLY GROUP AD reports on consolidated basis revenue from sale of devices in the amount of BGN 146 301 thousand, which is 57.3 % higher than previous year.

During 2023 the Company sold its position in financial instruments that were traded on a regulated market and realized a profit at the amount of BGN 181 thousand.

REVENUE	12 months of 2022 thousand BGN	y/y change %	12 months of 2023 thousand BGN
Sale of goods and production	93 007	57.3%	146 301
Revenue from services and rents	171	40.9%	241
Other operating revenue	1 012	-7.5%	936
<b>Total operating revenue</b>	<b>94 190</b>	<b>56.58%</b>	<b>147 478</b>
Share in the profit of associated companies	118	-58.5%	49
Profit from operation with financial assets	-	-	181
<b>Total financial income</b>	<b>118</b>	<b>94.9%</b>	<b>230</b>

### 3.2. Operating expenses

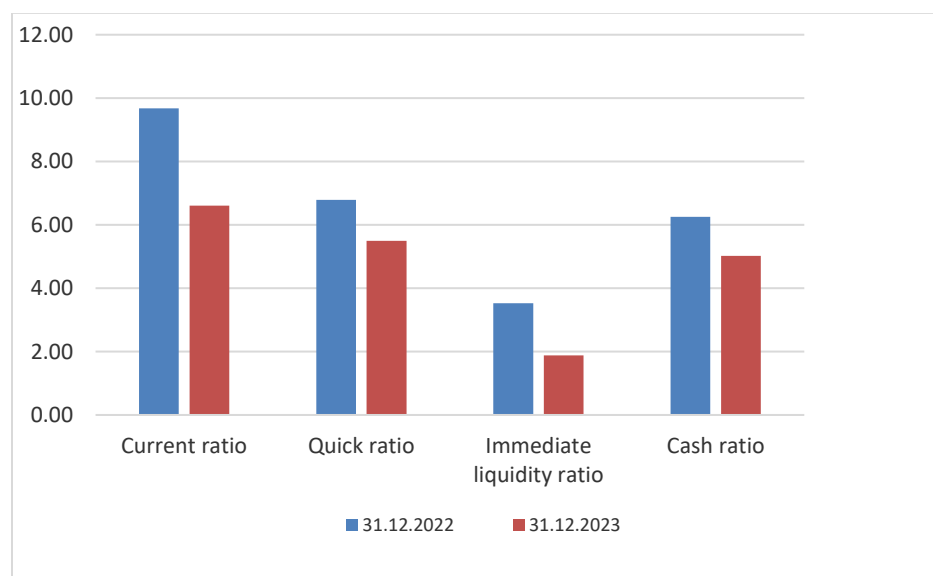
As of the end of the reporting period the total operating expenses of SHELLY GROUP AD increased by 71.9% compared to the same reporting period of the previous year. This was mainly due to the increase in marketing and sales expenses by 155.5%, in other operating expenses by 445.3% and in external service expenses by 94.7%.

The biggest part of the reported operating expenses for the reporting period belongs to the expenses for salaries and social securities with 39.8 % share in total expenses, followed by the expenses for marketing and sales with a share of 21.5% and external services with share of 14.5%.

EXPENSES	12 months of 2022 thousand BGN	y/y change %	12 months of 2023 thousand BGN
Materials	(509)	-14.3%	(436)
External services	(3 521)	94.7%	(6 855)
Depreciation	(506)	36.2%	(689)
Salaries	(16 644)	28.6%	(18 826)
Other administrative expenses	(1 255)	-56.9%	(541)
<b>Total administrative expenses</b>	<b>(20 435)</b>	<b>33.8%</b>	<b>(27 347)</b>
Impairment expenses	(1 885)	73.1%	(3 263)
Sales and marketing	(3 981)	155.5%	(10 172)
Other operating expenses	(1 185)	445.3%	(6 462)
<b>Total Operating Expenses</b>	<b>(27 486)</b>	<b>71.9%</b>	<b>(47 244)</b>

### 3.3. Financial indicators

#### Liquidity Ratios



LIQUIDITY RATIOS	31-12-22	31-12-23
Current ratio	9.68	6.61
Quick ratio	6.79	5.50
Absolute liquidity ratio	3.53	1.88
Cash ratio	6,25	5.02

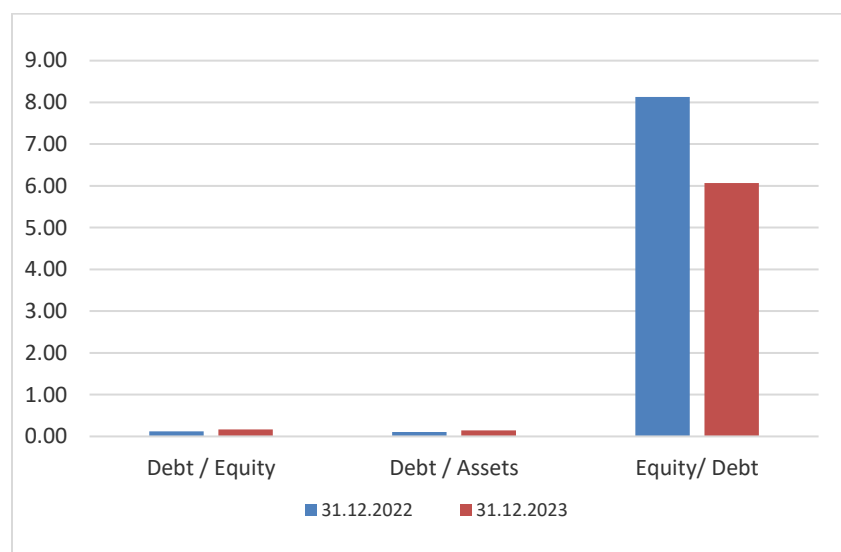
**The current liquidity ratio at the end of the reporting period decreased due to the following:** the current assets increased by 40.7 % compared to the end of 2022, while the current liabilities increased by 106.0%.

**The quick liquidity ratio at the end of the reporting period decreased due to the following:** the current assets decreased by 20.6% compared to the end of 2022, while the current liabilities increased by 106.0%.

**The absolute liquidity ratio at the end of the reporting period decreased due to the following:** the current liabilities increased by 9.3% compared to the end of 2022, while current liabilities increased by 106.0%.

**The cash ratio at the end of the reporting period decreased due to the following:** The cash increased by 9.3% compared to the end of 2022, the commercial receivables increased by 138.5%, while the current liabilities increased by 106.0%.

### Financial autonomy coefficients



DEBT RATIOS	31-12-22	31-12-23
Debt / Equity	0.12	0.16
Debt / Assets	0.11	0.14
Equity / Debt	8.13	6.07

**The change in the debt/equity ratio at the end of the reporting period is due to the following:** the Company's total liabilities increased by 85.8% compared to the end of 2022, and the equity increased by 38.6%.

**The change in the debt/assets ratio at the end of the reporting period is due to the following:** the Company's total assets increased by 43.8% compared to the end of 2022, while the Company's total liabilities increased by 85.8%.

**The change in equity/ debt ratio at the end of the reporting period is due to the following:** the total liabilities of the Company increased by 85.8% compared to the end of 2022, and the equity increased by 38.6%

#### 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 April 2023, there were held early parliamentary elections for the Ordinary National Assembly and as of the date of this Interim report, as a result of which a regular government of the two first political formations is formed.</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 December 2023, the overall business climate indicator decreases by 1.8 points compared to the previous month (from 21.6% to 19.8%), due to the unfavorable business climate in the construction, retail and services sectors.<sup>1</sup></p> <p>Overall, annual average real GDP growth is expected to slow down from 3.4% in 2022 to 0.6% in 2023, before recovering to 0.8% in 2024 and stabilizing at 1.5% in 2025 and 2026. Compared with the September 2023 projections, the outlook for GDP growth has been slightly revised down for 2023-24, on the back of the recent data releases and weak survey data, whereas it is unrevised for 2025.<sup>2</sup></p>

<sup>1</sup> [https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2023-12\\_024GKPK.pdf](https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2023-12_024GKPK.pdf)

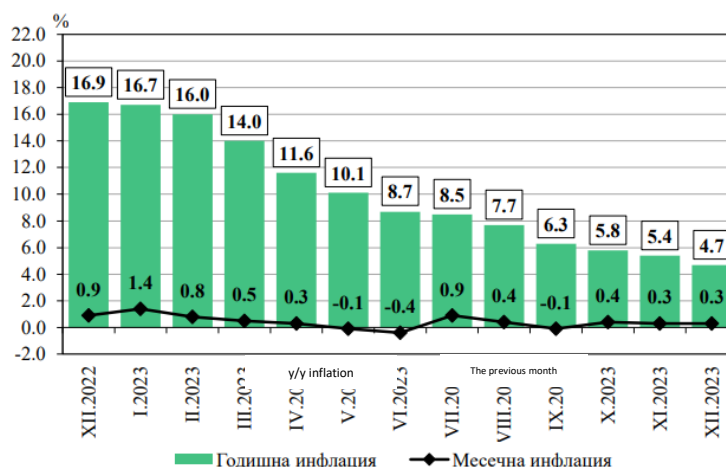
<sup>2</sup> [https://www.bnb.bg/bnbweb/groups/public/documents/ecb\\_publication/publications\\_ecb\\_mb\\_202308\\_bg.pdf](https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202308_bg.pdf)

<p>INTEREST RATE RISK</p>	<p>Interest rate risk is related to possible negative changes in interest rates established by the financial institutions of the Republic of Bulgaria.</p> <p>The Governing Council decided at its meeting on 14 December 2023 to keep the three key ECB interest rates unchanged. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target. The Governing Council’s future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary to ensure such a timely return.<sup>3</sup></p> <table border="1" data-bbox="730 567 1120 1323"> <thead> <tr> <th colspan="2" style="text-align: center;"><b>Basic Interest Rate</b></th> </tr> <tr> <th style="text-align: center;"><b>Date</b></th> <th style="text-align: center;"><b>Percentage</b></th> </tr> </thead> <tbody> <tr><td style="text-align: center;">01.12.2023</td><td style="text-align: center;">3.80</td></tr> <tr><td style="text-align: center;">01.11.2023</td><td style="text-align: center;">3.79</td></tr> <tr><td style="text-align: center;">01.10.2023</td><td style="text-align: center;">3.64</td></tr> <tr><td style="text-align: center;">01.09.2023</td><td style="text-align: center;">3.53</td></tr> <tr><td style="text-align: center;">01.08.2023</td><td style="text-align: center;">3.29</td></tr> <tr><td style="text-align: center;">01.07.2023</td><td style="text-align: center;">3.12</td></tr> <tr><td style="text-align: center;">01.06.2023</td><td style="text-align: center;">2.96</td></tr> <tr><td style="text-align: center;">01.05.2023</td><td style="text-align: center;">2.77</td></tr> <tr><td style="text-align: center;">01.04.2023</td><td style="text-align: center;">2.47</td></tr> <tr><td style="text-align: center;">01.03.2023</td><td style="text-align: center;">2.17</td></tr> <tr><td style="text-align: center;">01.02.2023</td><td style="text-align: center;">1.82</td></tr> <tr><td style="text-align: center;">01.01.2023</td><td style="text-align: center;">1.42</td></tr> </tbody> </table> <p style="text-align: right;">*Source: BNB<sup>4</sup></p>	<b>Basic Interest Rate</b>		<b>Date</b>	<b>Percentage</b>	01.12.2023	3.80	01.11.2023	3.79	01.10.2023	3.64	01.09.2023	3.53	01.08.2023	3.29	01.07.2023	3.12	01.06.2023	2.96	01.05.2023	2.77	01.04.2023	2.47	01.03.2023	2.17	01.02.2023	1.82	01.01.2023	1.42
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<p>INFLATION RISK</p>	<p>Inflation risk is a general price increase in which money depreciates and households and firms are likely to suffer a loss.</p> <p>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.</p> <p>According to the NSI, in December 2023, Monthly inflation is 0.3% and annual inflation is 4.7%. Inflation is measured by CPI, where monthly inflation refers to December 2023 compared to the previous month, and annual inflation is for December 2023 compared to the same month of the previous year. In December 2023, monthly inflation is 0.3% and annual inflation for December 2023 vs. December 2022 is 4.7%. Annual average inflation</p>																												

<sup>3</sup> [https://www.bnb.bg/bnbweb/groups/public/documents/ecb\\_publication/publications\\_ecb\\_mb\\_202308\\_bg.pdf](https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202308_bg.pdf)

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

for the period January to December 2023 compared to the period January to December 2022 is 9.5%.<sup>5</sup>



Source: NSI

The Harmonized Index of Consumer Prices is a comparable measure of inflation for EU countries. It is one of the criteria for price stability and for Bulgaria's accession to the euro area. The HICP, like the CPI, measures the overall relative change in the price level of goods and services.

According to the NSI, the HICP in December 2023, monthly inflation is 0.3% and annual inflation for December 2023 compared to December 2022 is 5.0%. The average annual inflation rate for the period January to December 2023 compared to the period January to December 2022 is 8.6%.<sup>6</sup>

According to the December 2023 Eurosystem staff macroeconomic projections for the euro area, inflation is expected to decline gradually over the course of 2024, before approaching the Governing Council's 2% target in 2025. Overall, Eurosystem staff expect headline inflation to average 5.4% in 2023, 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026. Compared with the September 2023 ECB staff macroeconomic projections for the euro area, this amounts to a downward revision for 2023 and especially for 2024.[...] Overall, with medium-term inflation expectations assessed to remain anchored at the ECB's 2% inflation target, headline HICP inflation is expected to decrease from 5.4% in 2023 to an average of 2.7% in 2024, 2.1% in 2025.<sup>7</sup>

CURRENCY RISK

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 leva 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.

<sup>5</sup> [https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-12\\_EVM5I07.pdf](https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-12_EVM5I07.pdf)

<sup>6</sup> [https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-12\\_EVM5I07.pdf](https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-12_EVM5I07.pdf)

<sup>7</sup> [https://www.bnb.bg/bnbweb/groups/public/documents/ecb\\_publication/publications\\_ecb\\_mb\\_202308\\_bg.pdf](https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications_ecb_mb_202308_bg.pdf)

	<p>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 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 <math>\pm 15\%</math>.</p> <p>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.<sup>8</sup> 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.</p> <p>The SHELLY GROUP AD Group companies operate in Bulgaria as well as in EU countries and third countries, mainly in the USA, Latin America and Australia. 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.</p> <p>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.</p>
Credit risk of the state	<p>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 consolidated economic entities, including the Company. 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:</p>

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

Table 1: Credit risk of Bulgaria (Source: Ministry of Finance)

Credit agency	Date of last change	Long-term rating	Prospects
Standard & Poor's	25.11.2023 <sup>9</sup>	BBB/A-2	Stable
Fitch	28.10.2023 <sup>10</sup>	BBB	Positive
Moody's Investors Services	04.02.2023 <sup>11</sup>	Baa1	Stable

The international credit rating agency S&P Global Ratings upgraded its rating to positive from stable and affirmed Bulgaria's long-term and short-term foreign and local currency sovereign credit ratings at 'BBB/A-2'. The positive outlook reflects the rating agency's view that there is at least a one-in-three chance that Bulgaria will join the euro area in the next 24 months.

The ruling coalition formed in June represents Bulgaria's first stable government in two years, after five parliamentary elections. One of the government's main policy objectives is the country's accession to the euro area, which is planned to be achieved by 1 January 2025. Even if Bulgaria does not join the euro area in 2025, the rating agency expects that accession is likely to be postponed until 1 January 2026.

Despite an ageing workforce, Bulgaria's economy has strong prospects for real growth, with an average rate of 3% over the period 2024-2026, driven mainly by domestic demand. Consumption will remain strong due to the good performance of the labour market, which supports real salaries growth. Sufficient EU funding for Bulgaria, which S&P Global Ratings estimates at over 30% of GDP in 2023, will support investment activity in the coming years. Obtaining and using all available funds will be challenging as deadlines approach for the main funding programmes - the EU Multiannual Financial Framework 2014-2020 and the Recovery and Sustainability Mechanism, under the Next Generation EU (NGEU) programme.

S&P Global Ratings assess Bulgaria's fiscal performance as one of the best among Central and Eastern European countries and expect that current fiscal plans will result in deficits below 3% of GDP in the period to 2026, keeping net government debt below 20% of GDP. They expect the current account deficit to remain low and over-financed by EU funds and FDI (Foreign direct investments) flows, limiting the need for external financing and maintaining a stable external position.

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S&P Global Ratings would upgrade the credit rating over the next two years potentially by several notches if Bulgaria becomes a euro area member. S&P notes that it would

<sup>9</sup> <https://www.minfin.bg/bg/news/12432>

<sup>10</sup> <https://www.minfin.bg/bg/news/12383>

<sup>11</sup> <https://www.minfin.bg/bg/news/12105>

	<p>revise the rating outlook to stable if expectations of Bulgaria joining the euro area become less likely.<sup>12</sup></p>
	<p><b>The international credit rating agency Fitch Ratings</b> has affirmed Bulgaria's 'BBB' long-term foreign and local currency sovereign credit rating with a positive outlook.</p> <p>Fitch Ratings has affirmed Bulgaria's Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'BBB' with a Positive Outlook.</p> <p>Bulgaria's ratings are supported by its strong external and public balance sheets versus 'BBB' peers and credible policy framework, underpinned by EU membership and a long-standing currency board. On the other hand, the low level of investments/GDP and unfavourable demographics weigh on potential growth and government finances over the long term.</p> <p>The Positive Outlook reflects the prospects for Bulgaria's euro adoption, which would lead to further improvement in external metrics. Despite a delay in the euro area accession process, there is broad political commitment to euro adoption in 2025. Since the formation of the new government, parliament has passed all remaining post-ERM II commitments, while the amendment of the Central Bank Law should be approved by end-2023.</p> <p>Euro adoption: Bulgaria's HICP inflation is easing but remains significantly above that of the three best performing EU member states, and does not currently comply with the price stability criterion. Given the considerable uncertainty about the inflation trajectory, it remains questionable whether Bulgaria will meet the price stability criterion in mid-2024 (the key date for 2025 euro adoption). Bulgaria is on course to meet all other nominal euro-adoption criteria (public finances, interest rate and exchange rate). Fitch analysts consider euro adoption as supportive to the rating, as all else equal, the output of Fitch's proprietary Sovereign Rating Model (SRM) would improve by around two notches.</p> <p>Growth acceleration: Following the economic expansion in the first half of 2023, despite slowing external demand, high inflation and elevated uncertainty, Fitch has raised its GDP growth forecast for this year to 1.9% (from 1.3% expected in May). Household consumption will likely be supported by higher fiscal spending, the strong labour market, reduction in the saving rate and strong credit growth. Investment growth should gradually improve in the second half of 2023 as EU transfers increase. The GDP growth will speed up to 2.8% in 2024 and 3% in 2025, as easing of private consumption will be balanced by stronger investment supported by EU transfers. Fitch analysts take account of the fact that the government is committed to implementation of Recovery and Resilience Facility reforms and recently submitted the second payment request for EUR 724 million (0.8% of 2023 GDP).</p> <p>Gradual easing of inflation: Fitch projects headline HICP inflation will continue to gradually decelerate, while core pressures will decline slower due to strong private consumption, a tight labour market and second-round effects. Fitch sees inflation on average at 9.1% in 2023, 4.6% in 2024 and 2.9% in 2025. The inflation outlook remains subject to considerable uncertainty stemming mainly from development of commodity prices and persistency of second-round effects.</p> <p>Wider medium-term fiscal deficits and low public debt: We forecast the budget deficit at 2.6% of GDP in 2023, affected by the lower-than-planned cost of energy support</p>

<sup>12</sup> <https://www.minfin.bg/bg/news/12432>

	<p>measures, higher social and capital spending, and public sector wage increases. While Bulgaria has a good record of fiscal prudence, it is expected that the current government might favour slightly wider deficits in the medium term to boost public sector investment and increase social transfers to reduce inequalities. The Agency expects budget deficits of 2.8% of GDP in 2024 and 3.5% of GDP in 2025.</p> <p>Despite wider fiscal deficits, Bulgaria’s public debt ratio will remain very low compared with EU countries and ‘BBB’ peers. Fitch analysts project general government debt/GDP ratio to remain below 30% until 2027.</p> <p>Factors that could lead to positive rating action: progress toward euro area accession, including greater confidence in Bulgaria meeting membership criteria and the likely timing of euro adoption; an improvement in the economic growth potential, for example, via the implementation of structural and governance reforms to improve the business environment and/or effective use of EU funds.</p> <p>Factors that could lead to negative rating action: lack of progress in euro area accession due to persistent political instability or a failure in meeting convergence criteria; lower medium-term growth prospects driven, for example, by a large adverse macroeconomic shock or inflation entrenched at high levels.<sup>13</sup></p>
	<p><b>The international credit rating agency Moody's</b> affirmed Bulgaria's Baa1 long-term foreign and local currency sovereign credit rating with a stable outlook.</p> <p>The affirmation of Bulgaria's Baa1 rating balances the following key factors: 1) Moody's expectation that an energy crisis in Europe will not materially weaken the country's economic and fiscal position. 2) Support for Bulgaria's credit profile stemming from the prospect of euro adoption, despite the risk of a delay in adoption beyond 2024. 3) Risks to the government's effectiveness and progress on key priorities stemming from the protracted domestic political stalemate in the country.</p> <p>The stable outlook reflects Moody's expectation of relatively little fluctuation in the country's key economic and fiscal indicators over the next 12 to 18 months. It also reflects the balance of risks between the potential negative effects on the credit profile arising from the country's political situation and the potential positive effects of the eventual adoption of the euro.</p> <p>Moody's analysts estimate that despite rising producer and consumer prices, the data available for Bulgaria as of November 2022 show that the country's industrial production and private consumption are relatively resilient to these shocks. Moody's expects real GDP growth to come in at 2.7% in 2022, before slowing to 1.4% in 2023 and points out that these estimates are among the most robust growth rates compared to other European countries this year. The government's ability to provide support to businesses without weakening its fiscal position is also noted as an important factor explaining why Moody's does not expect the energy crisis to have significant and lasting economic effects on the Bulgarian economy. The rating agency believes that inflation will fall to 6.0% at the end of 2023, down from 14.3% at the end of 2022. In line with the need to meet the Maastricht criteria, the agency expects the budget deficit to remain stable at around 3% of GDP in 2023 and 2024, while government debt will increase slightly to 23.8% and 24.7% of GDP at the end of 2023 and 2024, respectively, keeping the country's overall fiscal position broadly unchanged.</p>

<sup>13</sup> <https://www.minfin.bg/bg/news/12383>

	<p>According to Moody's, Bulgaria can still meet its target of adopting the euro by 2024, but the country's baseline scenario envisages that this process is likely to be delayed until at least 2025.</p> <p>The lack of a stable governing coalition for most of the period from April 2021 to the present has increased the risks associated with the implementation of key policies and could also complicate the government's ability to respond to unforeseen events. Analysts note that the caretaker government has been effective in strengthening alternative gas supply routes through Greece and Turkey, as well as alternative gas supplies, most notably from Azerbaijan.</p> <p>The rating agency would upgrade the rating if there is an improvement in the long-term growth outlook stemming from improvements in infrastructure and the institutional environment, as well as the country's accession to the euro area. Moody's noted that it would downgrade the rating in the event of a sustained deterioration in the country's strong fiscal position, long-term economic growth prospects, and failure to complete the euro area accession process.<sup>14</sup></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 that 12.954 million persons in the EU, of whom 10.970 million in the euro area (EA), were unemployed in November 2023. Compared with October 2023, unemployment decreased by 144 000 in the EU and by 99 000 in the euro area. Compared with November 2022, unemployment decreased by 283 000 in the EU and by 282 000 in the euro area.<sup>15</sup></p>
Risk associated with the legal system	<p>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.</p>
TAX RISK	<p>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.</p>

## 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.

<sup>14</sup> <https://www.minfin.bg/bg/news/12105>

<sup>15</sup> [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)

### **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 those new developments will establish among the competitors on the market.

### **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**

Shelly Group AD 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 Company. 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 Company;
- 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 Company'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 SHELLY GROUP AD 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 SHELLY GROUP AD 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 its scope of regular business or that significantly deviate from the market conditions. Transactions in the ordinary course of business with subsidiaries are reported on individual basis and relevant information is available in the Individual Quarterly Report Q4 2023 that has been published on 30 January 2024.

Any such transactions are excluded for the purposes of consolidation

## 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 1 039 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 and December 13,2022.

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

No material new receivables and/or payables arose during the period.

## 7. INFORMATION ON THE TRADING IN THE SHARES OF SHELLY GROUP AD DURING THE REPORTING PERIOD

Historical data on trade						
Date	Volume	Turnover	Highest Price	Lowest Price	Opening Price	Closing Price
24.01.2024	78345	3971799.90	55,200	46,000	47,300	53,400
29.12.2023	77927	3291462.70	47,400	40,400	40,700	47,100
30.11.2023	53132	2192537.60	42,500	39,900	40,000	40,800
31.10.2023	28132	1166419.60	43,000	39,500	42,900	40,700
29.09.2023	39468	1675929.00	46,400	39,200	46,400	43,100
31.08.2023	129013	5001155.40	47,800	29,900	30,200	46,400
31.07.2023	85850	2472426.30	30,400	26,300	26,300	30,400
30.06.2023	51854	1406551.80	28,000	26,000	27,400	26,000
31.05.2023	112738	2721969.50	27,400	21,800	22,000	27,400
28.04.2023	20486	458881.90	22,700	22,000	22,500	22,000
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

Source: Investor.bg

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

## 8. EVENTS AFTER THE END OF THE REPORTING PERIOD

After the end of the reporting period, SHELLY GROUP AD submitted to the FSC, the BSE and the public additional information.

Date	NOTIFICATION
10.01.2024	<p>The Company has announced to the FSC and to the Public the following information:</p> <p>Herewith Shelly Group AD (Ticker: SLYG / ISIN: BG1100003166) (“Shelly Group” / “the Company”) announces 57.2% year-on-year increase in revenue from sales of devices and related services to EUR 74.9 million (BGN 146.5 million) in FY 2023, based on preliminary data. The revenue from sales of Shelly IoT and smart home devices increased by 61.7%, amounting to EUR 73.2 million (BGN 143.2 million). Driven by strong Black Friday and Christmas sales, the consolidated revenue forecast of EUR 72.0 million (BGN 140.8 million) was strongly exceeded. The Company will officially disclose unaudited consolidated financials for FY 2023 on 26 February 2024 after the close of trading. Note: EUR/BGN exchange rate fixed at EUR 1 = BGN 1.95583. For further information, please visit <a href="http://corporate.shelly.co">corporate.shelly.co</a></p>
22.02.2024	<p>Shelly Group AD has exercised a call option to acquire an additional 16% stake of the share capital of its Slovenian IoT subsidiary Shelly Tech (formerly GOAP Računalniški inženiring in avtomatizacija procesov d.o.o. Nova Gorica).</p> <p>The exercise of the call option is the second stage of the acquisition of the Target Company based on an option agreement between Shelly and the shareholders of the Target Company signed and announced in January 2023.</p> <p>The total purchase price for the 16% stake under the exercised call option amounts to EUR 586,666.30 calculated in accordance with the conditions of the option agreement.</p> <p>The remaining 24% of the shares in the Target Company held by three individual shareholders are subject to a further call/put option exercisable in 2026 under the agreed terms.</p>

## 9. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

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 February 2024

For SHELLY GROUP AD:

Dimitar Dimitrov  
CEO