REPORT ON BUSINESS ACTIVITIES
of SHELLY GROUP PLC

as of
the third quarter of 2023

consolidated basis

Pursuant to Art. 100o, Para 4of 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 PLC (former company name ALLTERCO JSCo) on an consolidated basis present information about the company, relevant to the end of fourth quarter of 2022 for the period 01.01.2023 – 30.09.2023 (the "reporting period').

1. INFORMATION ABOUT THE GROUP

SHELLY GROUP PLC 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 PLC (former company name 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.

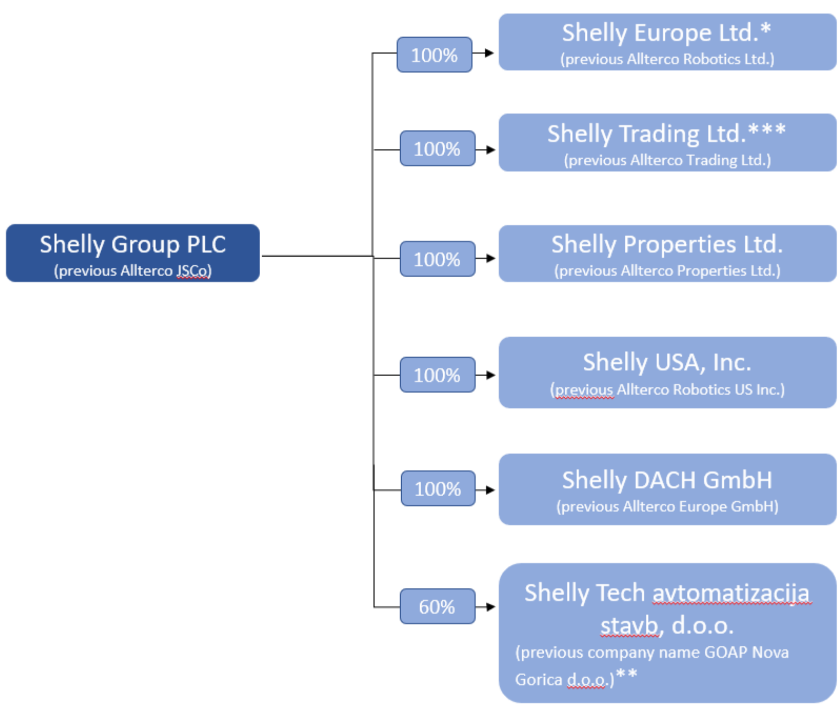
The Company is public listed within the meaning of the Public Offering of Securities Act and is registered as a public company in the register kept by the FSC with Decision 774 - PD of November 14, 2016 as a result of successfully completed initial public offering of shares from the Company's capital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

Since November 22, 2021 the shares of SHELLY GROUP PLC 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 PLC and its subsidiaries as shown below:

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



* During the reporting period the subsidiary Shelly Europe Ltd. (*former company name "Alterco 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

** 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 shareholders of the Slovenian Company. The total purchase price for the 1st stage transactions is EUR 2 million.

*** After the end of the reporting period the subsidiary Shelly Trading Ltd. Has registered a branch in the United Kingdom under registration number FC040991 with office at 130 Shaftesbury Avenue, London, 2nd Floor, W1D 5EU.

The remaining 40% of the Slovenian Company share capital belonging to three individual shareholders of the Slovenian Company are subject to Option Agreement that was signed together with the SPAs. Under the Option Agreement SHELLY GROUP PLC 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 the Slovenian Company's share capital and the other option is for 24% of the Slovenian Company's 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. participates of 1,56% of INSTALACIJE d.d. montaža in trgovina - v stečaju, with registered address Goriška cesta 66, 5270 Ajdovščina, Slovenia, registration number 5279330000, which company is in process of liquidation that is expected to end up by the end of 2023.

SHELLY GROUP PLC 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 PLC is 30% with an option to acquire additional up to 50% and reach a controlling stake of up to 80%.

SHELLY GROUP PLC 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 PLC 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 PLC, 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 PLC 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 hasn't been change in the personnel of the Board of Directors. As of 08.04.2022 the Board of Directors includes:

- 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 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;
- Non-monetary contribution representing 69.60% of the shares of Terra Communications JSCo, with an appraised monetary value of BGN 5,438,000;
- A combination of non-monetary and cash contributions amounting to BGN 8,012,000;
- Cash contributions at the amount of BGN 1,500,000 compared to 1,500,000 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 against 2,999,999 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 PLC 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 BGN, divided into 18 050 945 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 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 30 September, 2023 the capital structure of SHELLY GROUP PLC 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 PLC 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 PLC

Detailed information about the important events that occurred during the reporting period for SHELLY GROUP PLC, 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 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 PLC reported on consolidated basis a profit of BGN 19 451 thousand which is an increase by 65.6% compared to the previous year.

During the reporting period SHELLY GROUP PLC reports revenue from business activities in the amount of BGN 87 195, which is an increase by 44.0% compared to the same period of previous year.

The revenue from sale of devices has increased by 49.4% compared to the same period in the previous year.

REVENUE	9 months of 2022 thousand BGN	y/y change%	9 months of 2023 thousand BGN
Sale of goods and production	57 772	49.4%	86 297
Revenue from services	57	(52.6%)	27
Other operating revenue	2 718	(68.0%)	871
Total operating revenue	**60 547**	**44.01%**	**87 195**
Share in the profit of associated companies	48	20.8%	58
Profit form operation with financial assets	-	-	61
Total financial income	**48**	**147.9%**	**119**

3.2. Operating expenses

As of the end of the reporting period the total operating expenses of SHELLY GROUP PLC increased by 51,1 %% compared to the same reporting period of the previous year. This is mainly due to the increase of the expenses for external services by 102.2%, the expenses for sales and marketing by 74.4% and of the expenses for salaries by 42.5%.

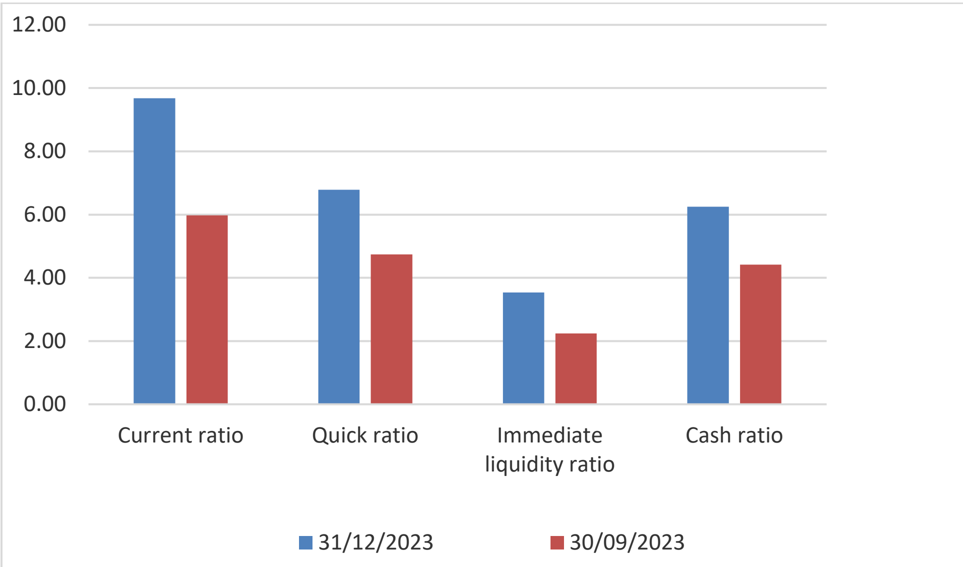
The biggest part of the reported operating expenses for the reporting period belongs to the expenses for salaries and social securities with 50,2% share in total expenses, followed by the expenses for external services with a share of 25,7% and the expenses for sales and marketing with 13.4% share in the total expenses.

The increase of the salaries expenses reflects the increase of the number of employees within the Group.

EXPENSES	9 months of 2022 thousand BGN	y/y change %	9 months of 2023 thousand BGN
Materials	(161)	52.2%	(245)
External services	(3 432)	102.2%	(6 939)
Depreciation	(338)	64.8%	(557)
Salaries	(9 507)	42.5%	(13 546)
Other administrative expenses	(524)	199.6%	(1 570)
Total administrative expenses	**(13 962)**	**63.7%**	**(22 857)**
Sales and marketing	(2 078)	74.4%	(3 624)
Other operating expenses	(1 829)	(71.2%)	(527)
Total Operating Expenses	**(17 869)**	**51.1%**	**(27 008)**

3.3. Financial indicators

Liquidity Ratios



LIQUIDITY RATIOS	31-12-22	30-09-23
Current ratio	9.68	5.98
Quick ratio	6.79	4.74
Absolute liquidity ratio	3.53	2.24
Cash ratio	6.25	4.42

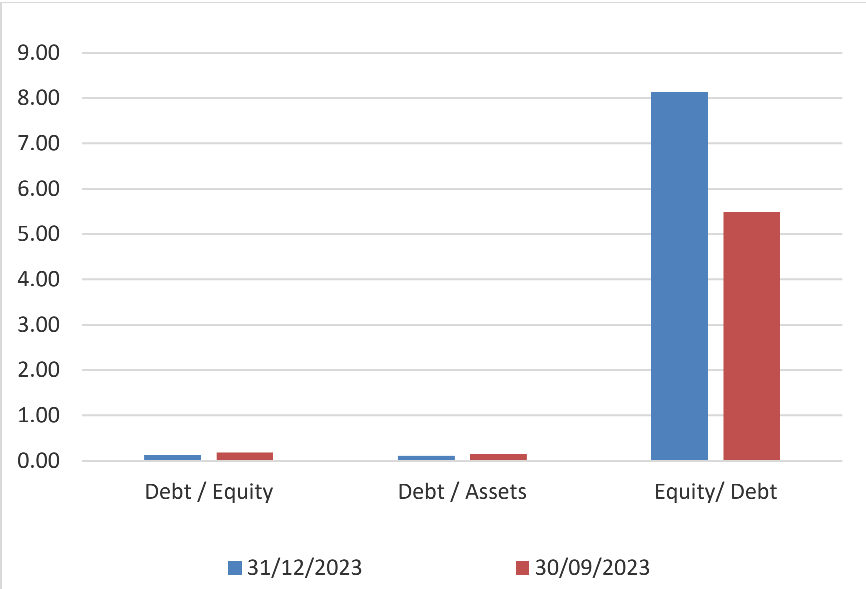
The current liquidity ratio at the end of the reporting period decreased due to the following: the current assets increased by 22.2% compared to the end of 2022, while the current liabilities increased by 97,8%.

The quick liquidity ratio at the end of the reporting period decreased due to the following: the current increased by 22.2% compared to the end of 2022, while the inventories decreased by 15.4%, and the current liabilities increased by 97,8%.

The absolute liquidity ratio at the end of the reporting period decreased due to the following: current liabilities increased by 97,8% compared to the end of 2022, while cash increased by 25,6%.

The cash ratio at the end of the reporting period decreased due to the following: the current liabilities increased by 97,8% compared to the end of 2022, while cash increased by 25,6%, the trade receivables increased by 58,4%.

Financial autonomy coefficients



DEBT RATIOS	31-12-22	30-09-23
Debt / Equity	0.12	0.18
Debt / Assets	0.11	0.15
Equity/ Debt	8.13	5.49

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 78,8% compared to the end of 2022, and the equity increased by 20,8%.

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 27,2% compared to the end of 2022, while the Company's total liabilities increased by 78,8%.

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 78,8%. compared to the end of 2022, and the equity increased by 20,8%.

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	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. 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. 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 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.
GENERAL MACROECONOMIC RISK	According to the National Statistical Institute, in September 2023 the overall business climate indicator remained similar to the level in August (from 25.1% to 24.7%), with an improvement only in retail trade.[1] Overall, annual average real GDP growth is expected to slow down from 3.4% in 2022 to 0.7% in 2023, before recovering to 1.0% in 2024 and to 1.5% in 2025. Compared with the June 2023 Eurosystem staff projections, the outlook for GDP growth has been revised down by 0.2 percentage points for 2023, 0.5 percentage points for 2024 and 0.1 percentage points for 2025, reflecting a significant downgrade of the short-term outlook, amid deteriorating survey indicators, tighter financing conditions – including more adverse credit supply effects – and the stronger euro exchange rate.[2]

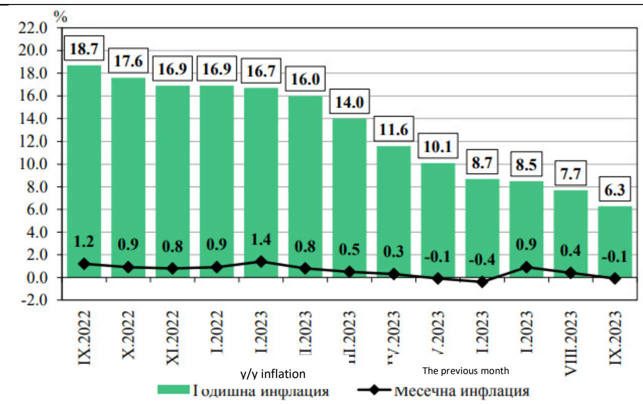
[1] https://www.nsi.bg/sites/default/files/files/pressreleases/Economy2023-09_I0GPAWW.pdf
[2] https://www.ecb.europa.eu/pub/economic-bulletin/html/eb202306.en.html

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. At its meeting on 14 September 2023 the Governing Council decided to raise the three key ECB interest rates by 25 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility were increased to 4.50%, 4.75% and 4.00% respectively, with effect from 20 September 2023. On the basis of its current assessments, the Governing Council considers that the ECB's key interest rates have reached a level which, if sustained for long enough, could contribute significantly to a timely return of inflation to its target level.[3] **Basic Interest Rate** **Date** / **Percentage** 1.10.2023 / 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 *Source: BNB[4]
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. According to the NSI, in September 2023, the monthly inflation rate is -0.1% month-on-month and annual inflation for September 2023 versus September 2022 is 6.3%. Year-to-date inflation (September 2023 versus December 2022) is 3.6%, and average annual inflation for October 2022-September 2023 versus October 2021-September 2022 is 12.4%.[5]

Basic Interest Rate

Date	Percentage
1.10.2023	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

[3] https://www.ecb.europa.eu/pub/economic-bulletin/html/eb202306.en.html
[4] https://www.bnb.bg/Statistics/StBIRAndIndices/StBIBaseInterestRate/index.htm
[5] https://nsi.bg/sites/default/files/files/pressreleases/Inflation2023-09_EBHJ79H.pdf



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 September 2023 monthly inflation is -0.3% compared to the previous month and the annual inflation for September 2023 compared to September 2022 is 6.4%. Year-to-date inflation (September 2023 versus December 2022) is 4.2% and the average annual inflation rate for October 2022-September 2023 versus October 2021-September 2022 is 10.8%.[6]

The September 2023 ECB staff macroeconomic projections for the euro area see average inflation at 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025. This is an upward revision for 2023 and 2024 and a downward revision for 2025. The upward revision for 2023 and 2024 mainly reflects a higher path for energy prices. Underlying price pressures remain high, even though most indicators have started to ease. ECB staff have slightly revised down the projected path for inflation excluding energy and food, to an average of 5.1% in 2023, 2.9% in 2024 and 2.2% in 2025. […] They now expect the euro area economy to expand by 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. […] Overall, with medium-term inflation expectations assumed to remain anchored at the ECB's inflation target, headline HICP inflation is expected to decrease from an average of 8.4% in 2022 to 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025, reaching the target in the third quarter of 2025. [7]

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

[6] https://nsi.bg/sites/default/files/files/pressreleases/Inflation2023-09_EBHJ79H.pdf
[7] https://www.nsi.bg/sites/default/files/files/pressreleases/Inflation2023-06_Q0Z4XZ5.pdf

	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 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 ± 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.[8] 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 SHELLY GROUP PLC Group companies operate in Bulgaria as well as in EU countries and first 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. 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 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: Table 1: Credit risk of Bulgaria

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

Credit agency	Date of last change	Long-term rating	Prospects
Standard & Poor‘s	26.11.2022 [9]	BBB/A-2	Stable
Fitch	13.05.2023 [10]	BBB	Positive
Moody’s Investors Services	03.02.2023	Baa1	Stable

Source: Ministry of Finance

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

[9] https://www.minfin.bg/bg/news/12185
[10] https://www.minfin.bg/bg/news/11830

	regional security situation significantly worsening, or disruptions of energy imports from Russia threatening the availability of sufficient energy supplies for Bulgaria's economy.[11] 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 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.
	Fitch Ratings has affirmed Bulgaria's 'BBB' long-term foreign and local currency sovereign credit rating with a positive outlook. Bulgaria's rating is underpinned by its strong external and fiscal position compared to similarly rated countries, the credible policy framework of EU membership and the long-standing functioning of the monetary council regime. On the other hand, the low investment-to-GDP ratio and unfavourable demographic factors weigh on potential economic growth and public finances in the longer term. The positive outlook reflects the country's plans for euro area membership, which could lead to further improvements in the country's external position indicators. Despite a series of snap parliamentary elections over the past two years, the rating agency believes that the key political parties remain committed to euro adoption. According to Fitch Ratings, the necessary legislative amendments should be adopted once the political environment stabilizes, with the risks around the eurozone entry date mainly related to the fulfilment of the price stability criterion. Inflation will ease slowly: Fitch Ratings forecasts average annual inflation (HICP) of 9.6% in 2023 (current median of 6.4% for BBB-rated countries), compared to 13% in 2022. While lower international commodity prices and strong base effects should reduce headline inflation this year, robust domestic demand will keep upward pressure on prices, leading to average annual inflation of 4% in 2024. Wage dynamics are broadly in line with inflation, with nominal average wage growth of 12.8% in 2022, driven primarily by private sector increases. Weakening growth outlook: GDP growth is projected to slow to 1.3% in 2023 from 3.4% in 2022. Analysts at the rating agency, expect a sharp reduction in the inventories that firms hold and a slowdown in private and public consumption growth. Nevertheless, private consumption will continue to be supported by a robust labor market, with increases in minimum wages and social payments supporting lower-income households. Investment growth will start to pick up as EU fund flows increase. GDP growth will accelerate to 2.6% in 2024. The delay in the implementation of the SGP reforms is a major downside risk.

[11] https://www.minfin.bg/bg/news/12018

	Uncertain fiscal outlook: according to Fitch Ratings, fiscal performance this year is uncertain as the caretaker government operates under the provisions of the 2022 budget law. The general government deficit is expected to widen to 3.4% of GDP in 2023 from 2.8% in 2022, in line with the current median of 'BBB' rated countries. Strong nominal GDP growth will support tax revenues, while increases in public sector pensions and wages and increases in capital spending will boost overall government spending. The fiscal prudence achieved and the commitment of key political parties to fiscal consolidation support the view of the rating agency analysts that fiscal performance should not be jeopardized in the medium term. Fitch Ratings expects the budget deficit in 2024 to narrow to 2.5% of GDP. Key factors that could lead to positive rating actions are: progress towards euro area accession, including confidence that Bulgaria meets the membership criteria and the euro adoption deadline; improving the growth potential of the economy, for example by introducing structural and governance reforms to improve the business environment and/or efficient use of EU funds. Factors that could lead to negative rating actions are: lack of progress in joining the euro area due to persistent political instability or failure to meet the convergence criteria; lower growth prospects in the medium term caused, for example, by a significant adverse macroeconomic shock or inflation that has persisted at high levels.[12]
	Moody's affirmed Bulgaria's Baa1 long-term foreign and local currency sovereign credit rating with a stable outlook. 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. 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. 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.

[12] https://www.minfin.bg/bg/news/12185

	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. 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. 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.[13]
Unemployment risk	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. Eurostat estimates that 12.837 million persons in the EU, of whom 10.856 million in the euro area (EA), were unemployed in August 2023. Compared with July 2023, unemployment decreased by 112 000 in the EU and by 107 000 in the euro area. Compared with August 2022, unemployment decreased by 335 000 in the EU and by 407 000 in the euro area. In August 2023, the euro area seasonally-adjusted unemployment rate was 6.4 %, down from 6.5 % in July 2023 and from 6.7 % in August 2022. The EU unemployment rate was 5.9 % in August 2023, down from 6.0 % in July 2023 and from 6.1 % in August 2022.[14] According to the Employment Agency the registered unemployment rate in the country in September 2023 is 5.3%. It remains the same as in August. The number of registered unemployed persons at the end of the month is 149 878, which is an increase of 528 persons compared to last month.[15]
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

[13] https://www.minfin.bg/bg/news/12105
[14] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics#Unemployment_in_the_EU_and_the_euro_area
[15] https://www.az.government.bg/bg/news/view/poveche-ot-13-200-bezrabotni-nameriha-svoeto-rabotno-mjasto-chrez-burata-po-truda-prez-septemvri-3980/#

	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.

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 PLC 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 PLC 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 PLC 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 are excluded for the purposes of the consolidation.

About transactions with companies of the Group see note 6 of the separate financial report as of 30.09.2023.

Key Management Personnel

During the reporting period, to the members of the Board of Directors have been paid gross remunerations in total amount of BGN 781 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.

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 Shelly Tech d.o.o. (*former company name GOAP Računalniški inženiring in avtomatizacija proces d.o.o., Nova Gorica*).

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

Historical data on trade

Дата	Обем	Оборот	Най-висока стойност	Най-ниска стойност	Стойност при отваряне	Стойност при затваряне
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
31.01.2023	25137	539302.60	22,200	20,200	20,600	21,100

Source: Investor.bg

Information on the trading of SHELLY GROUP PLC 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 PLC submitted to the FSC, the BSE and the public additional information.

Date	NOTIFICATION
02.10.2023	The Company has announced to the FSC and to the Public the following information: Notification under Art. 19, para. 3 of Regulation (EU) 596/2014 regarding transactions of a person performing managerial functions - Dimitar Dimitrov, CEO of Shelly Group AD, sale of 71,000 shares (BGN 2,368,431) at a unit price per share of BGN 37.161, made on 28.09.2023 outside a trading venue.
11.10.2023	The Company has announced to the FSC and to the Public the following information: Shelly Group PLC (ticker: SLYG / ISIN: BG1100003166) (“Shelly Group” / “the Company”), previously: Allterco JSCo, announce hereby a 49.4% year-on-year increase in revenue from sales of devices and related services to EUR 44.1 million (BGN 86.3 million) in 9M 2023, based on preliminary data. The revenue from sales of Shelly-branded IoT and smart home devices increased by 54,4%, amounting to EUR 43.00 million (BGN 84.00 million). The sales revenue of MyKi tracking devices decreased by 31.5% to EUR 1.1 million (BGN 2.2 million). With Shelly Group's focus on IoT and smart building solutions, MyKi no longer generates significant revenue and earnings contributions and will therefore no longer be included in the reporting of preliminary revenue figures in the future. The Company will officially disclose consolidated financial results for 9M 2023 until 14 November 2023.
30.10.2023	The Company has disclosed to the FSC and to the Public Individual Financial Report as of the third quarter of 2023
10.11.2023	The Company has announced to the FSC and to the Public the following information: The Board of Directors of Shelly Group AD (Ticker: SLYG / ISIN: BG1100003166) (“Shelly Group” / “the Company”), has decided today to propose to the shareholders of the Company at an Extraordinary General Meeting the resolution to initiate a procedure for the transformation of the Company by changing its legal-organizational form from a joint stock company with its registered office in the Republic of Bulgaria to a European Company with its registered office in the Republic of Bulgaria in accordance with Article 281 et seq. of the Bulgarian Commercial Code and Article 2 (4) of Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European Company (SE) (the “Transformation”). It is also proposed that the General Meeting of Shareholders instructs the Board of Directors to carry out any and all legal and factual actions with a view to preparing the Transformation.In addition, the

	Extraordinary General Meeting is to resolve on a change in the Board of Directors.In relation to the resignation request of the current Chairman of the Board of Director, Mr. Gregor Bieler, it is proposed that Mr. Christoph Vilanek be elected in his place, with a term of office that coincides with the term of office as this of the other current members of the Board of Directors, i.e., 5 January 2026. The change shall have effect as of 1 January 2024. For further information, please visit allterco.com

In addition to the events described above, the Company discloses the following: In early October 2023, the years-old simmering conflict between Israel and Palestine escalated. The Group has no balances with counterparties from the warring parties.

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: 13 November 2023

Dimitar Stoyanov Dimitrov
Digitally signed by Dimitar Stoyanov Dimitrov
Date: 2023.11.13 21:11:32 +02'00'

For SHELLY GROUP PLC:

Dimitar Dimitrov
CEO