

REPORT ON BUSINESS ACTIVITIES

fourth quarter of 2024

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

In connection with the conversion of the Company's legal form from a joint stock company to an European company, the Company's corporate name has been updated throughout this document to read "Shelly Group" SE instead of "Shelly Group" plc. There has been no change in the legal personality of the Company.

These Notes to the Interim Report on the Business Activities of SHELLY GROUP on a consolidated basis present information about the company, relevant to the end of fourth quarter of 2024 for the period 01.01.2024 –31.12.2024 (the “reporting period”).

1. INFORMATION ABOUT THE GROUP

SHELLY GROUP SE is a public listed joint stock company, in process of conversion into an SE, 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 SE (former company name ALLTERCO JSCo).

By resolution of the General Meeting of Shareholders held on 14.10.2024, Shelly Group PLC was converted into a European Company (SE) pursuant to Chapter Nineteen of the Bulgarian Commercial Act and Article 37 of Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European Company (SE).

The company has its registered office and address of management: Republic of Bulgaria, Sofia County, Sofia Municipality, Sofia 1407, 51 Cherni Vrah Blvd, office building 3, floor 2 and 3. The address for correspondence is the same; Tel: +359 2 957 12 47. The website of the Company is <http://www.corporate.shelly.com/>.

The Company is publicly 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.

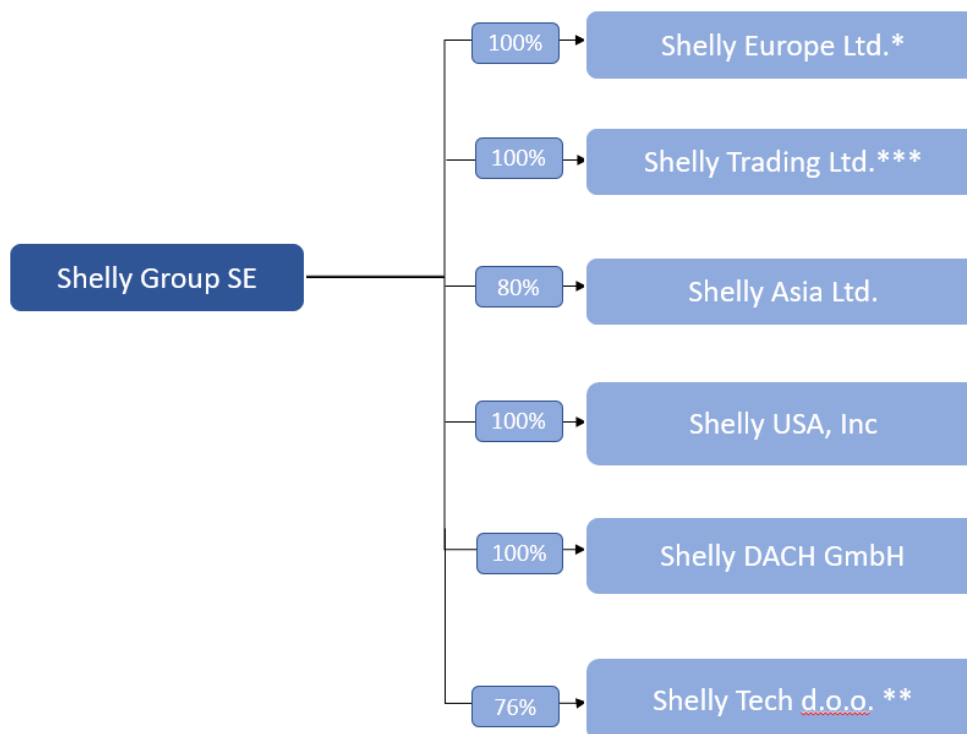
Since November 22, 2021 the shares of SHELLY GROUP SE are traded on two regulated markets in EU – Bulgarian Stock Exchange and Frankfurt Stock Exchange.

The company operates according to Bulgarian legislation.

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

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1.1. Structure of the economic group at the end of the fourth quarter for 2024



* In the beginning of 2024 the subsidiary Shelly Europe Ltd. has closed its branch in Ireland.

** In January 2024 the Company exercised its Call Option to acquire an additional 16% stake in the capital of its Slovenian IoT subsidiary Shelly Tech (formerly known as GOAP Računalniški inženiring in avtomatizacija proces d.o.o. Nova Gorica). The exercise of the Call Option is the second stage of the acquisition of the Slovenian Company on the ground of an Option Agreement between Shelly Group and the shareholders of the Slovenian Company entered into and disclosed in January 2023. The total acquisition price of the 16% interest under the exercised Call Option amounts to EUR 586,666.30, calculated in accordance with the terms of the Option Agreement. The remaining 24% of the shares of the Slovenian company held by three individual partners are subject to an additional Call/Put option exercisable in 2026 in accordance with the terms of the Option Agreement.

***The subsidiary Shelly Trading Ltd. has registered a branch in the United Kingdom and a representative office in the Netherlands.

On 31st of May the Group exercised its Call option to acquire 50% in the associate company Shelly Asia Ltd., (formerly known as Allterco Asia Ltd.), and thus the ownership share reached 80%. The price paid for the acquired shares is EUR 520 000

SHELLY GROUP SE has participation of 8 010 preference shares representing 10% of the capital of Ground Solutions Group AD, UIC: 206606897, acquired as a result of merger of Corner Solutions Ltd. into Ground Solutions Group AD.

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In the third quarter of 2024, Shelly Group SE signed an agreement for the sale of 100% of the capital of its subsidiary Shelly Properties EOOD, for a price of EUR 3.5 million (BGN 6.8 million).

The scope of business of the SHELLY GROUP SE, 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 SE 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.

The core business of the company and its group during the reporting period of 2024 remains the development, production and sales of IoT devices. As of today, majority of the income for the Group is coming from sales of products under the brand of Shelly.

1.2. Management

By resolution of the General Meeting of Shareholders of 18.12.2023, with effect as from 01.01.2024, a change was made in the personnel of the Board of Directors, to which Mr. Christoph Vilanek has been appointed in place of Mr. Gregor Bieler. In connection with the transformation of the Company from a joint stock company into a European company pursuant to Chapter Nineteen of the Bulgarian Commercial Act and Article 37 of Council Regulation (EC) No. 2157/2001 of 8 October 2001 on the Statute for a European company (SE), by its resolution of 14.10.2024 the General Meeting of Shareholders has re-elected the members of the Board of Directors and the latter, by its resolution of the same date, has assigned their functions as follows:

- 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 18 105 559 BGN, divided into 18 105 559, 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

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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 Allterco AD (*currently SHELLY GROUP SE*) 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 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
- In June 2024 the Company successfully completed closing of a public offering of shares. The increase was addressed to employees of the Company and its subsidiaries. The capital increase was in the amount of 54 614 BGN representing 54 614 ordinary, registered, dematerialized, voting shares, with a par value of BGN 1 each. The capital of Shelly Group PLC following the increase amounts to 18 105 559 BGN, representing 18 105 559 ordinary, registered, dematerialized, voting shares, with a par value of BGN 1 each.

As of 31 December, 2024 the capital structure of SHELLY GROUP SE is as follows:

NAME OF SHAREHOLDER	CAPITAL PERCENTAGE
Dimitar Dimitrov	30,26 %
Svetlin Todorov	29,19 %
Other individuals and legal entities	40,55 %

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 SE has carried out such activity during the reporting period, namely: Shelly Europe Ltd.

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2. IMPORTANT EVENTS FOR SHELLY GROUP SE

Detailed information about the important events that occurred during the reporting period for SHELLY GROUP SE, 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/publications/inside-information/>

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 fourth quarter of 2024 the Company reported consolidated revenue from sales in the amount of BGN 213 406 thousand, while for the same period of the previous year it reported BGN 147 478 thousand, which is an increase of 44.7%. For the reporting period, financial revenue from operations (interest income not included) amounted to BGN 1,217 thousand, compared to BGN 230 thousand reported in the same period of the previous year, which is an increase of 429.30%. This increase is mainly due to the sale of one of its subsidiaries amounting to BGN 1,242 thousand.

As of the end of the reporting period of 2024 the Company reports on consolidated basis profit in the amount of BGN 45 107, which is an increase of 36.9% compared to the previous year.

REVENUE	12 months of 2023 BGN thousand	y/y change %	12 months of 2024 BGN thousand
Sale of goods and production	146 301	42,0%	207 709
Revenue from services and rents	241	312,9%	995
Other operating revenue	936	402.4%	4 702
Total operating revenue	147 478	44,70%	213 406
Share in the profit of associated companies	49	(150,2)	(25)
Profit from operation with financial assets	181	-	-
Profit from sales of investment	-	-	1 242
Total financial revenue	230	429.3%	1 217

3.2. Operating expenses

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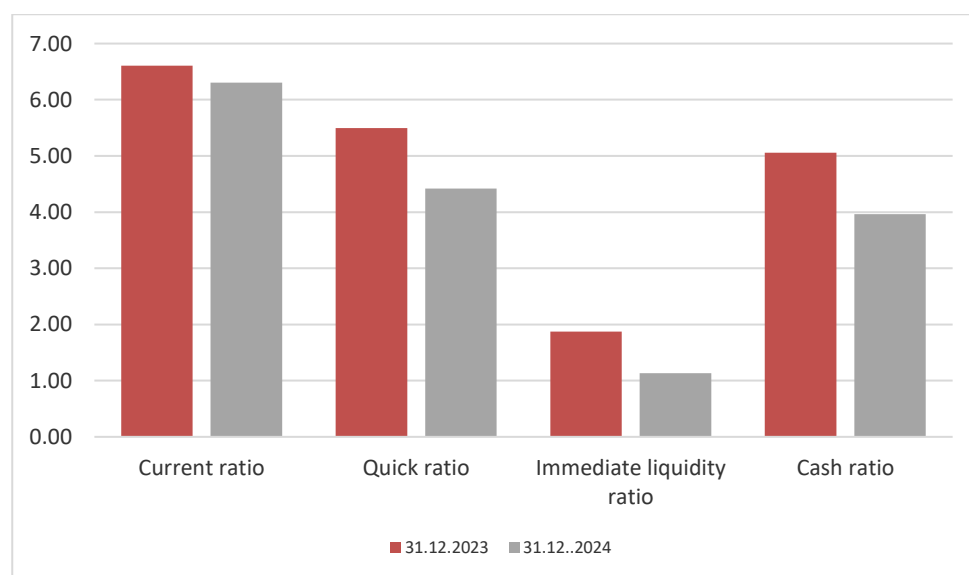
As of the end of the reporting period the total operating expenses of SHELLY GROUP SE increased by 67.0% compared to the same reporting period of the previous year. This is mainly due to the increase of the expenses for marketing and sales by 254.6%, external services by 88.1% and remunerations by 26.5%.

The biggest part of the reported operating expenses for the reporting period belongs to the expenses for marketing and sales with 45.7% share in the total expenses, followed by the salaries and social securities with 30.2% share in total expenses. The salaries expenses include the remuneration of the members of the Board of Directors, which is determined by a decision of the shareholders meeting, as well as the salaries of 4 employees that have labor contracts with the Company.

EXPENSES	12 months of 2023 BGN thousand	y/y change %	12 months of 2024 BGN thousand
Materials	(461)	33,8%	(617)
External services	(6 789)	88,1%	(12 769)
Depreciation	(689)	67,9%	(1 157)
Salaries	(18 820)	26,5%	(23 808)
Other administrative expenses	(572)	139,0%	(1 367)
	(27 331)	45,3%	(39 718)
Impairment expenses	(3 267)	100%	-
Sales and marketing	(10 172)	254,6%	(36 068)
Other operating expenses	(6 456)	(52,4)%	(3 074)
Total Operating Expenses	(47 226)	67,0%	(78 860)

3.3. Financial indicators

Liquidity Ratios



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LIQUIDITY RATIOS	31-12-23	31-12-24
Current ratio	6,61	6,31
Quick ratio	5,49	4,42
Absolute liquidity ratio	1,87	1,13
Cash ratio	5,06	3,96

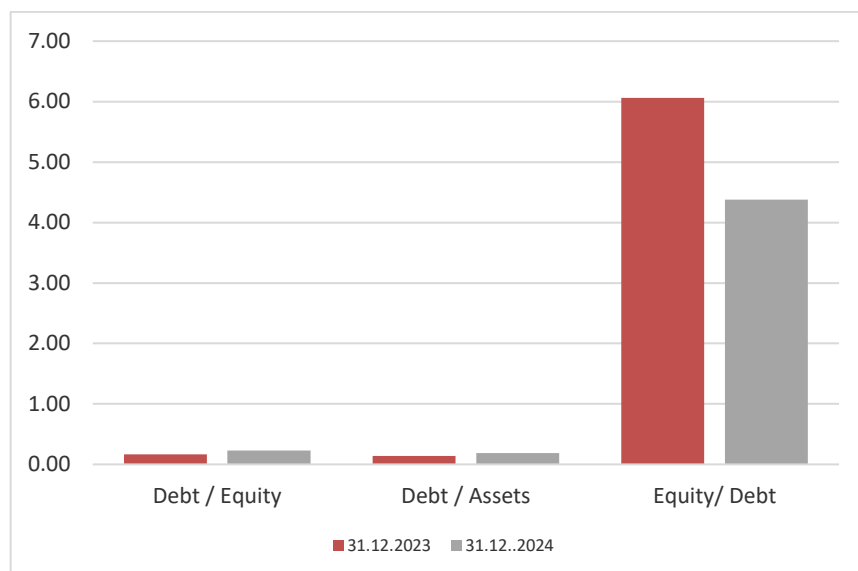
The current liquidity ratio at the end of the reporting period decreased due to the following: the current assets increased by 40.2 % compared to the end of 2023, while the current liabilities increased by 46.8%.

The quick liquidity ratio at the end of the reporting period decreased due to the following: the current assets increased by 40.2% compared to the end of 2023, while the current liabilities decreased by 46.8%, while inventories increased with 149.3%.

The absolute liquidity ratio at the end of the reporting period decreased due to the following: the current liabilities increased by 46.8% compared to the end of 2023, while cash decreased by 11.1%.

The cash ratio at the end of the reporting period decreases due to the following: The current liabilities increased by 46.8% compared to the end of 2023, and cash decreased by 11.1%, while the commercial receivables increased by 30.3%.

Financial autonomy coefficients



DEBT RATIOS	31-12-23	30-12-24
Debt / Equity	0,16	0,23
Debt / Assets	0,14	0,19
Equity / Debt	6,06	4,38

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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 88.2% compared to the end of 2023, and the equity increased by 36.0%.

The change in the debt/assets ratio at the end of the reporting period is due to the following: the Company's total assets increased by 43.4% compared to the end of 2023, while the Company's total liabilities increased by 88.2%.

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 88.2% compared to the end of 2023, and the equity increased by 36.0%

4. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

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

4.1. SYSTEMIC RISKS

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

Type of risk	Description
POLITICAL RISK	<p>Political risk is the likelihood of a change of Government, or of a sudden change in its policy, of occurrence of internal political turmoil and adverse changes in European and/or national legislation, as a result of which the environment in which local businesses operate will change negatively, and investors will incur losses. On 5 March 2024, Prime Minister Nikolay Denkov deposited the resignation of the cabinet before the Parliament. The next day, the cabinet's resignation was accepted by parliament with 216 votes in favour. In June 2024 early parliamentary elections were held. As of the date of the report, new elections have been held and a new government 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>

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GENERAL MACROECONOMIC RISK	<p>According to the National Statistical Institute, in September 2024 the overall business climate indicator decreased by 1.0 point compared to August (from 23.5% to 22.5%), due to the unfavorable business climate in the manufacturing sector.¹</p> <p>According to the ECB's experts, the economy is forecast to grow by 0.7% in 2024, 1.1% in 2025, 1.4% in 2026 and 1.3% in 2027. The projected recovery is mainly based on rising real incomes, which will enable households to increase consumption and businesses to boost investment.²</p>																												
INTEREST RATE RISK	<p>Interest rate risk is related to possible negative changes in interest rates established by the financial institutions of the Republic of Bulgaria.</p> <table border="1" data-bbox="776 541 1130 1098"> <thead> <tr> <th colspan="2" style="text-align: center;">Basic Interest Rate</th> </tr> <tr> <th style="text-align: center;">Date</th> <th style="text-align: center;">Percentage</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">01.12.2024</td><td style="text-align: center;">3.04</td></tr> <tr><td style="text-align: center;">01.11.2024</td><td style="text-align: center;">3.22</td></tr> <tr><td style="text-align: center;">01.10.2024</td><td style="text-align: center;">3.43</td></tr> <tr><td style="text-align: center;">01.09.2024</td><td style="text-align: center;">3.54</td></tr> <tr><td style="text-align: center;">01.08.2024</td><td style="text-align: center;">3.53</td></tr> <tr><td style="text-align: center;">01.07.2024</td><td style="text-align: center;">3.63</td></tr> <tr><td style="text-align: center;">01.06.2024</td><td style="text-align: center;">3.78</td></tr> <tr><td style="text-align: center;">01.05.2024</td><td style="text-align: center;">3.78</td></tr> <tr><td style="text-align: center;">01.04.2024</td><td style="text-align: center;">3.79</td></tr> <tr><td style="text-align: center;">01.03.2024</td><td style="text-align: center;">3.8</td></tr> <tr><td style="text-align: center;">01.02.2024</td><td style="text-align: center;">3.79</td></tr> <tr><td style="text-align: center;">01.01.2024</td><td style="text-align: center;">3.79</td></tr> </tbody> </table> <p style="text-align: center;">*Source: BNB³</p> <p>At its meeting on 12 September 2024 the Governing council decided to decrease ECB's three key interest rates by 25 basis points. The Board is determined to ensure that inflation returns to its medium-term target of 2% in a timely manner. It will keep key interest rates sufficiently restrictive for as long as necessary to achieve this target.⁴</p>	Basic Interest Rate		Date	Percentage	01.12.2024	3.04	01.11.2024	3.22	01.10.2024	3.43	01.09.2024	3.54	01.08.2024	3.53	01.07.2024	3.63	01.06.2024	3.78	01.05.2024	3.78	01.04.2024	3.79	01.03.2024	3.8	01.02.2024	3.79	01.01.2024	3.79
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INFLATION RISK	<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 as measured by the CPI, is 0.4% and annual inflation is 2.2%. Inflation is measured by the CPI, with monthly inflation for December 2024 relative to the previous month and annual inflation for December 2024 relative to the same month of the previous year.⁵</p>																												

¹ [Стопанска конюнктура през декември 2024 година \(nsi.bg\)](https://www.nsi.bg/)

² [ECB Economic Bulletin, Issue 8 / 2024 \(bnb.bg\)](https://www.ecb.europa.eu/press/pr/economic_bulletin/2024/08/index.en.html)

³ <https://www.bnb.bg/Statistics/StBIRAndIndices/StBIBaseInterestRate/index.htm>

⁴ [ECB Economic Bulletin, Issue 8 / 2024 \(bnb.bg\)](https://www.ecb.europa.eu/press/pr/economic_bulletin/2024/08/index.en.html)

⁵ [Инфлация и индекси на потребителските цени за септември 2024 година \(nsi.bg\)](https://www.nsi.bg/)

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	<p>The Harmonised 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.</p> <p>According to the NSI, in December 2024 monthly inflation is 0.3% and annual inflation for December 2024 compared to December 2023 is 2.1%.⁶</p> <p>ECB experts expect headline inflation to average According to the December 2024 macroeconomic forecasts for the euro area by Eurosystem experts, headline inflation is expected to average 2.4% in 2024, 2.1% in 2025, 1.9% in 2026 and 2.1% in 2027, when the EU's expanded emissions trading [...] According to Eurostat's preliminary estimate, annual inflation rose to 2.3% in November from 2.0% in October. This increase was expected and primarily reflected rising base effects related to energy dynamics. Food inflation declined to 2.8% and services inflation to 3.9%. Commodity price inflation rose to 0.7%.⁷</p>
CURRENCY RISK	<p>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.</p> <p>Currency risk will have an impact on companies with market shares, the payments of which are made in a currency other than BGN and EUR. Since, according to the current legislation in the country the Bulgarian lev is fixed to the euro in the ratio EUR 1 = BGN 1.95583, and the Bulgarian National Bank is obliged to maintain a level of Bulgarian levs in circulation equal to the bank's foreign exchange reserves, the risk of devaluation of the BGN compared to the European currency is minimal and consists in the eventual early abolition of the currency board in the country. At this stage, this seems unlikely, as the currency board is expected to be abolished upon the adoption of the EUR in Bulgaria as an official unit of payment.</p> <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 ± 15%.</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.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</p>

⁶ [Инфлация и индекси на потребителските цени за септември 2024 година \(nsi.bg\)](https://www.nsi.bg/)

⁷ https://www.bnb.bg/bnbweb/groups/public/documents/ecb_publication/publications/ecb_mb_202402_bg.pdf

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

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	<p>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 SE 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.</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 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.</p> <p>In its report from 19.10.2024 Fitch Ratings 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 'BBB' long-term foreign and local currency sovereign credit rating with a positive outlook.</p> <p>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. Fitch Ratings also notes that low labour productivity and unfavourable demographics have a deterrent effect on potential growth and the long-term sustainability of government finances.</p> <p>The positive outlook reflects the country's prospects for euro area membership, which would lead to further improvements in the country's external position indicators. Fitch Ratings considers that there is broad political commitment at national and European level to adopt the euro.</p> <p>Bulgaria fulfils all nominal convergence criteria for euro adoption, with the exception of price stability. Inflation in Bulgaria has continued to decline, narrowing the gap between the country's annual average inflation and that of the three best-performing EU Member States. Fitch Assumes that Bulgaria could meet the inflation stability criteria by the beginning of 2025, depending on the inflation development in the entire EU.</p> <p>According to the base scenario, this will allow Bulgaria to request a reassessment on its progress regarding convergence criteria during H1 2025 and will allow for entering the Eurozone since January 2026. All legislative measures needed for fulfilment of still open</p>

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	<p>commitments in respect to ERMII are approved by the parliament, while some measures just wait for enforcement. Nevertheless, the lack of stable government and the eventual long period of negotiations between the political parties may delay the accession to Eurozone. In general, the accession to Eurozone would support country's rating.</p> <p>Fitch expects GDP growth of 2.0% in 2024, up from 1.8% in 2023, supported by robust private consumption and sustained investment activity, despite heightened policy uncertainty and delays in the implementation of the SMP. The net exports will be an obstacle for the growth as the external demand is weak and the strong internal demand will stimulate the import. The rating agency expects GDP growth to reach 2.5% in 2025 and 2.7% in 2026, which is a little lower compared to the other countries.</p> <p>HICP inflation was 1.5% in September 2024 and underlying inflation was 2.3%, implying a broad easing of price pressures. It is expected that the inflation will start to increase gradually as the base effects are less favorable and the inflationary effect from the nominal increase in salaries is reflected in prices. Fitch expects annual average inflation to be 3% in 2024, 3.5% in 2025 and 3.1% in 2026.</p> <p>Fitch forecasts that the general government deficit will widen to 2.8% of GDP in 2024 from 1.9% in 2023, reflecting higher compensation and social spending. The lack of stimulus for increasing the revenues will keep the budget deficit unchanged at 2.9% during 2025 – 2026 (compared to BBB rating median of 3.2%). The current temporary government plans to present the budget for 2025 and mid-term plan during the autumn, but no much details are expected before a new government is in place. The increased social payments, the delay in applying reforms and the lack of reliable mid-term planning weakened the fiscal position of Bulgaria during the last years.</p> <p>Factors that could lead to positive rating actions include: further progress towards euro area accession, such as confirmation that Bulgaria has met the membership criteria and greater certainty about the likely timing of euro adoption; improving growth potential by implementing 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 actions are: non-accession to the euro area due to non-fulfilment of convergence criteria, and weaker economic growth prospects as a result of unfavorable political events which effect adversely the reforms.⁹</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, demand for staff from businesses remains very active, so such a risk seems negligible in the year ahead.</p> <p>Eurostat estimates the seasonally adjusted unemployment rate in the euro area at 6.3% in December 2024, up from 6.2% in November 2024 and down from 6.5% in December 2023. In December 2024, the EU unemployment rate is 5.9%, up from 5.8% in November 2024 and down from 6.0% in December 2023.¹⁰</p> <p>The registered unemployment rate in the country in December 2024 is 5.23%, a decrease of 0.4 percentage points compared to the same month of the previous year 2023.¹¹</p>

⁹ [Министерство на финансите :: Новини \(minfin.bg\)](https://www.minfin.bg/)

¹⁰ [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)

¹¹ [Безработицата 2024 | Агенция по заетостта \(government.bg\)](https://www.government.bg/)

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

4.2. NON-SYSTEMIC RISKS

Risks related to the industry in which the Group operates

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

Risk of shortage of key personnel

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

Risk of strong competition

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

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

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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.

Potential changes in telecommunications service regulations may also have some impact on the Group's operations as mobile operators are one of the main sales channels for the existing Myki products. Many of the IoT devices developed and sold by the Group companies use Internet-based technology and can work with the services of any Internet service provider. In this sense, the Group is now less dependent on regulations in the field of telecommunications insofar as the companies in its structure are not telecommunications service providers and mobile operators are only one of the marketing and distribution channels for IoT devices.

Risk of technology change

SHELLY GROUP SE 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

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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 SE 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 SE 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.

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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 include. Transactions in the ordinary course of business with subsidiaries are detailed in the Quarterly Individual Financial Statements as at the end of the fourth quarter of 2024, published on 30 January 2025, and are excluded for consolidation purposes

SHELLY GROUP SE did not grant any other loans, guarantees or commitments in total to any person or its subsidiary, including related parties, other than those mentioned above.

For more information on deals with related parties see Note 6 of the separate financial report as of December 31, 2024.

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 1 617 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 18 December 2023, confirmed and in force by resolution of the General Meeting of Shareholders of 14.10.2024 in connection with the conversion of the Company from a joint stock company into a European company and the re-appointment of the Board of Directors.

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, except the ones described in paragraph 5 of the consolidated report as of 31.12.2024.

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On 08.01.2025, the Board of Directors of Shelly Group ED resolved to provide its US subsidiary Shelly USA Inc. with financing in the form of an additional cash contribution of USD 700 thousand for a period of one year at an annual interest rate of 1%. This financing is in addition to that already provided in 2022 and 2024, in the amounts of USD 1 million and USD 400 thousand respectively, which the board decided to extend with one more year under the same conditions.

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

Historical data on trade

Date	Volume	Turnover	Highest Price	Lowest Price	Opening Price	Closing Price
21.01.2025	41269	2779203.03	69,432	66,498	66,498	68,063
27.12.2024	48419	3191758.65	67,672	64,738	66,889	65,716
29.11.2024	34098	2261883.97	69,823	63,564	66,498	66,694
31.10.2024	25167	1685364.55	70,801	62,978	68,063	66,498
30.09.2024	8264	563701.31	69.628	66.694	67.672	68.454
30.08.2024	23883	1657801.83	73.735	62.782	73.735	68.650
31.07.2024	29372	2119173.75	75.886	68.400	70.000	73.735
28.06.2024	24654	1724387.40	74,200	68,200	74,200	69,800
31.05.2024	32308	2308091.20	75,000	67,800	67,800	74,400
30.04.2024	50483	3390025.40	68,400	64,800	67,600	68,000
28.03.2024	83420	5432623.80	70,000	58,600	59,000	67,600
29.02.2024	55900	3232975.80	59,400	56,600	58,400	59,200
31.01.2024	34844	1971916.80	59,200	46,000	47,300	58,800

Source: Investor.bg

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

Date	NOTIFICATION
08.01.2025	The Company has disclosed the following to the FSC, the regulated market and the public: In compliance with Article 114(2) in conjunction with Article 114a(9) of POSA, Shelly Group SE announces that the Board of Directors of Shelly Group SE ("Shelly" / "the Company") has resolved on the grant of USD 700 thousand – additional cash contribution – to its US subsidiary Shelly USA Inc. The financing is granted for a period of one year and interest rate of 1% per annum. This

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	<p>financing is provided in addition to the additional cash contributions granted in 2022 and 2024 in the amount of USD 1 million and USD 400 thousand respectively, each of which the Board of Directors decided to extend for a further period of 1 year and on the same terms. Despite the growing revenues of the American subsidiary, these are still not sufficient to cover its cash needs to increase the company's market share in US and the losses from previous periods. The financing will provide Shelly USA Inc. With additional working capital for the development of the business in the US market and financial stability.</p>
09.01.2025	<p>The Company has disclosed the following to the FSC, the regulated market and the public: Shelly Group SE (Ticker: SLYG / ISIN: BG1100003166) (“Shelly Group” / “the Company”), according to preliminary data has achieved an increase in consolidated sales revenues from the sale of devices and related services of around 43% to c. EUR 107 million (c. BGN 209 million) in the financial year 2024 compared to the previous year. Thus, the consolidated sales revenues forecast of EUR 105 million (BGN 205 million) was slightly exceeded. It should be noted that Shelly Group initiated changes to the terms and conditions with its key accounts in Q4 2024, and offered volume-based bonuses, which are recognized as a reduction in sales revenues. On a comparable basis, growth was c. 45% to around EUR 109 million (c. BGN 213 million). The EBIT forecast for the financial year 2024 is confirmed. The revenue target of c. EUR 200 million for 2026 remains unchanged. The Company will officially disclose unaudited consolidated financials for FY 2024 on 24 February 2025 after the close of trading.</p>

9. OTHER INFORMATION AT THE DISCRETION OF THE COMPANY

All information considered relevant by the Company is set out in this Report, the Financial Statements and the notes thereto.

Date: 24 February, 2025

For SHELLY GROUP SE:

Dimitar Dimitrov
CEO

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